Development Strategy
and
the Developing Countries

DEVELOPMENT STRATEGY AND THE DEVELOPING COUNTRIES

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South Asian Publishers Pvt. Ltd.
New Delhi Madras

South Asian Publishers Pvt. Ltd.
36 Netaji Subhash Marg, Daryaganj, New Delhi 110002
177 Avvai Shanmugham Salai, Madras 600086

Published by South Asian Publishers Pvt. Ltd.
36 Netaji Subhash Marg, Daryaganj, New Delhi 110002
and printed at Prabhat Press, 20/1 Nauchandi Grounds, Meerut 250002. Printed in India.

To my children
INDRA and MIRELLA

Preface

We find today many books on the problems of economic development of the developing countries. My modest effort to deal in the same subject is a result of a few factors. First, there was a feeling of dissatisfaction on my part, from the theoretical interpretations of underdevelopment and development of the developing countries, which, to me at least, could hardly provide an answer to the open questions on the development problems of these countries. Secondly, while teaching graduate course on the Marxist interpretation of "Theory and policy of economic development" at the Economics Faculty Zagreb, some new thoughts have come to my mind. Finally while giving seminars in postgraduate courses during 1977–1979 on "Economic Development and the Developing Countries", I with my fellow colleagues and students, visited some of the most reputed universities of Europe and the United States. There I had an opportunity to discuss with some of the masters of economic theory, various aspects of development of the developing countries, and have been greatly enlightened. For these reasons, I decided to put some of my thoughts on paper and present to the readers in the form of this book. It is entirely up to the readers to assess the utility and the novelty of reasoning presented here. However, the ideas have been documented and supported by adequate footnotes and references. Any mistake in interpretation is solely my own, and any suggestion or criticism by the readers will be welcome.

The manuscript of this book is partly based on my earlier university textbook, "Teorija i politika privrednog razvoja u zeml jama u razvoju", Informator, Zagreb, 1977. This book was well received in Yugoslavia by the students and teachers alike. This encouraged me to present the current book in the English language. The manuscript of the book has been read and commented upon by some of my friends and colleagues at Zagreb University. I must

thank Dr. J. Sirotkovic (Professor of Economics, and the President of Yugoslav Academy of Arts and Sciences, Zagreb), and my friends, Dr. Z. Jasic, Dr. M. Mikic, Dr. A. Runjic and Mr. I. Bicanic, B. Phil. (Oxford) all from the Faculty of Economics, Zagreb, for their useful suggestions and comments.

I am thankful to my friend M. Lall, M. A., in England, for without his support I could hardly have completed this work. I am also thankful to Mrs. M. A. Jarvis for her patience and thoughtfulness in typing out the manuscript of the book.

SOUMITRA SHARMA

Zagreb, May 1982

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Chapter ONE

Introduction

Economic development in the developing countries seems to be wrapped up in pessimism. Inspite of three decades of sustained efforts against world-wide poverty, the problem keeps on multiplying. The gap between the developed and developing countries is continuously widening. Hope of economic boom and prosperity is waning and a concern for the international well-being is making serious headway.

The economics of the developing countries[1] has opened up important and interesting questions, both in theory and practice. There seem to be very few issues in economics that have attracted so wide an interest of the scholars as did that of the slow pace of economic growth and development of these countries.[2] Although down from Smith and Ricardo to Keynes and after, the issues of long and short term equilibrium have dominated the economic theory, the real interest in the problem seemed only after the Second World War when the questions related to development and

1. In literature on economics one comes across very similar terms referring to one and the same. Terms like backward, less developed, underdeveloped, poor, low income, non-industrialized, emerging or third world countries are often used. The terms like the South, or the Group of 77, have a political tone in them. However, most common term is "developing" countries and has come to be accepted in the recent literature. In our study we shall stick on this term, although it is more or less a term that explains little of the economic aspects of the implied problems.

2. A number of words and phrases draw attention to a single phenomenon, i.e. progress, economic and social change, changes in incomes per head, economic welfare and so on. Lately, economists have been inclined for precise definitions. It is not uncommon to distinguish between economic growth and development. While the former is taken to mean growth in output per head, the latter accounts for both the increase in output per head and the changes in technical and institutional framework of the mode of production.

underdevelopment have invoked interest of academics and the politicians alike. It may, however, be noted that the Marxists have long been occupied with the problems of long term development of societies as such. Problem of underdevelopment as is dealt today never existed for them. It is only very recently that a separate chapter in Marxian economics has been added on this problem, but primarily as a result of political aspirations of the U.S.S.R. in the developing countries. However, the question of underdevelopment in the developing countries is serious and complex in nature.

Most nations in Asia, Africa, Central and Latin America—inspite of the fact that certain countries of the world have attained historically unrecorded growth of productive forces—even today seem to be far from the thresholds of economic development. They do seem to strive hard to attain economic prosperity by trying to understand and solve the intricacies, problems and processes of economic development, but the results are far from being modest. This problem of economic underdevelopment and the low rate of economic growth is almost common to two-thirds of world's economies, having over sixty-five percent of world's population with only about twenty percent of total world incomes.

It is, therefore, not surprising at all that there is so much interest in the problems and policies of economic development of the developing countries. This has been, primarily, due to the fact that many countries, have lately become themselves increasingly aware of their own miseries due to poverty, thereby leading to genuine demand by all concerned to speed up the pace of economic and social development. No less has been the role played in this by the growth of economic nationalism in these countries, which is the product of freedom from the colonial rule in case of most of these countries, and the political tension between superpowers that existed during the nineteen sixties. The increased role of the international agencies and their aid policies over and above the practical results did make all the partners in development fairly problem conscious and has thus enhanced the cause of investigations in theory and policy of economic development. The role of international division of labour, changes in the mode and techniques of production and the technological revolution of the post-war years have also been responsible for a general awakening for economic development of the developing countries.

While economic theory has all these years been attempting to seek explanations to justify various strategies of development for these countries, the practices have taken refuge in various socio-economic and political ideologies ranging from Smithian to Keynesian, Marxian-Leninist to the Gandhian or Maoist. The economic development policies have often rested on methods of economic planning or certain partial measures of monetary or fiscal control. The countries aimed at speedy growth have either followed the traditional methods of stimulating growth as developed by the developed capitalist countries or envisaged their own patterns of development. Not seldom these have been based on simple empirical or complex econometrical models of growth and development devised by learned economists, or have even been inspired by individual whims, dogmas and moral philosophy. A fairly large amount of economic development of the developing countries could be traced back to the last thirty-five years.

It is not unusual to question economists as to the choices, of theory and policy of economic development. In fact, hardly we can choose one at the cost of the other. Surely, no one will dispute that the task of an economist, like that of a physician, is to understand and explain, explore, devise and prescribe an adequate and effective therapeutic policy to the economic problem. In such a task the economists need not only to use the existing knowledge in socio-economic theory but also to look for the new frontiers of science. While the policy measures are required to solve the actual tasks of development, the theoretical framework is supposed to provide the basic foundations for such measures. For illustration, development plans being the sum total of socio-economic decisions of the planners in a country, necessarily require to have a solid theoretical frame comprising methods and techniques of planning.

A number of theories of growth and development have emerged in the last thirty years, but there still lacks a general theory. These theoretical approaches carry a substantial degree of truth and useful ideas in them, but are far from being complete to offer solutions for the development of the developing countries. What we need is an examination of all positive approaches to the development problems and a search for a generalized approach uniting all positive ideas into a single system of thought.

It is, therefore, essential that we look upon the development

problems of these countries from proper socio-economic institutional perspective. If need be, after examining the factors that determine the state of underdevelopment, the remedies that have been offered in theory and tried in practice, we must be prepared for logical modifications in the existing general theoretical framework offered by capitalist or Marxist economics, and the traditional policies may be departed from. In dealing with the problems of today's developing world, one must not loose from sight the fact that although it is customary to treat the developing countries as a single compact group and often uniform remedies are offered, the "developing" world community is a bundle of heterogeneous cases, each being an intricate example of development task, where the uniform solution is bound to result in miscarriage. Thus, within the general theoretical approach specific policy solutions need to be devised for each individual patient, having similar symptoms of economic ills. Here, we may sight an example of poverty of the masses in the developing countries. Although, it is a common feature of most of the countries in the group, it differs in magnitude, intensity and character for which reasons may be traced into their socio-political, cultural, economic and historical differences. The remedies to solve the problem can certainly not be the same. This, however, makes the task of economists searching for a general theoretical framework, fairly difficult. Moreover, the entire world today is faced with intricate problems of economic development. Both the developed and the developing, in their speedy economic development, need mutual help and cooperation, for today's world is growing to be an increasingly dependent one. Although, today's world is presented in economics as a divided one, but the economic development of the world can hardly be thought of to be governed by two seperate theories of economic development, one for the developed and other for the developing countries, as is, sometimes, done by the Western theorists. What we really need is a general theoretical framework of world economic development, within which the policy solutions might differ according to the specific conditions.

In the present book an attempt has been made to present the problem of economic development of the developing countries in this perspective. After having examined the various so-called theories of underdevelopment, an attempt has been made to search a uniform approach of economic development in general. The

developing countries have been presented only as a case of the general approach. Following the problems of theory, a fact finding survey of economic and social conditions of the developing countries has been made with a specific attention on poverty and income distribution. Finally, planning for economic development has been examined as a policy measure, along with other aspects of economic policy, and in the concluding chapter some aspects of the new international economic order as a remedy for the world development, have been discussed.

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CHAPTER TWO

Theoretical Interpretations for Economic Underdevelopment

There has already emerged a comprehensive international literature on the economic problems of the developing countries. This field of economics has come to be known as economics of development or development economics. A number of Western and Marxist theoreticians have concerned themselves with the theoretical and practical questions on the problems of economic development and underdevelopment, and it seems that these investigations have exerted a useful influence on economics as a whole. In this context it should, however, be pointed out that while in Western economics dynamic growth theories developed at the expense of static equilibrium theories, which no doubt greatly contributed to an intensive study of the economic problems of the developing countries. The Marxist theory, on the other hand, with a knowledge on the interwoven nature of the world economy, the methods of evaluations of social formations and evolution process of society, the success of multi-sectoral mixed economies, development of new forms of state management and the role of the state in economic life, has been freed from a lot of dogmatic approach, and it has resulted into an increased interest in development economics in general, and of developing countries in particular.

Inspite of the fact that there are considerable differences between Marxian and various Western theories, in their manner of thinking, views, approach, and research methods and the final perspective conclusions, it is far more difficult to draw a clear-cut dividing line in this field than it is in the theoretical interpretations of developed capitalism or socialism. This, normally, follows from the nature of the subject under research itself, i.e. from the unstable, heterogeneous, highly changing and transitional character of the socio-economic features of the developing countries, providing a basis not only for the mutual interactions of the theories, especially in

case of partial surveys, but are often in a position to induce similar or even identical part results. Recent trends in economic theory are in the direction of eliminating the differences in two approaches, and to look for a generalized approach of speedy economic growth in the developing countries, although tacitly political colours are added.

Studies in economic development or to put it more precisely, on the social-economic conditions of the developing countries started relatively late in both Western and Marxist economics. This was due to the fact that as long as the colonial system did not disintegrate and the economic growth of the countries which gained independence recently did not become a world economic problem and its solution a mass demand of world policy, economics was not induced to carry on research in this sphere.

It is true, Western economics has dealt with these questions previously too. However, earlier research has been more concerned with backward regions of already developed capitalist countries and some less developed European capitalist countries. It did not produce new ideas or development theories and, moreover, did not even add original chapters to the general theory.

The colonial and semi-colonial countries, as subsidiaries of the colonial powers did not represent a separate economic or particularly a national economic problem. If any problem would have cropped up at all, it would have been confined to questions concerning the exploitation of raw materials, or to the question of the efficiency of investment of the exported capital as a question on microeconomic level. The role of the colonies in the international division of labour was dealt with as a question of detail within the general theories of international trade.

On the other hand, Marxism has always considered the colonial system—similarly to capitalism itself—as a transitional historical formation and analysed it accordingly. Lenin, by further developing Marx's research on colonialism, gave a comprehensive analysis and criticism on imperialism, throwing light on the role of colonial and semi-colonial countries in the international division of labour, and proving that joint interest of colonial liberation movements and international labour movements. From the aspect of the young Soviet State, liberated by socialist revolution, Lenin dealt with the further development of an economically backward country (Russia and the other parts of the USSR) and the problem of how economic

underdevelopment can be mastered not only in theory but also in practice.

However, the dogmatic approach that prevailed later, for quite some time, hindered the scientific analyses of the changing world capitalist system, simplified criticism on colonialism so that it became biased, evaluated the problem of the liberation of colonies merely from the aspect of the socialist revolution and regarded their further post-colonial development as the natural and necessary repetition of the pattern of development of the Soviet Union which, by setting an example have produced a prescription valid for ever. Only after this dogmatic trend has been dethroned by Yugoslav economic theory in practice, could scientific Marxist analysis on the changes and new phenomena of world development start again.

The mass liberation of the colonies and the agile international political activity of the new states surprised Western economics with new demands. On the other hand, Marxist economics had to deal with a more or less new situation that came up due to the fact that a number of freed countries of heterogeneous economic and social structure contrary to all expectations continued to remain within the sphere of capitalist world economy.

Thus economic analysis was lagging far behind the change of history. Sudden practical demands of the aid policy of international organizations, economic advice to be given to the new states, re-examination of international trade and credit conditions in the light of the problems of developing countries, etc., induced economics on giving quick but not very good answers, suitable only for practical purposes and short-range economic decisions in matters of development. This is partly the cause for approximative categorization, and evaluation and determination of the size and proportion of underdevelopment on the basis of various statistical indices on one hand, and the determination and description of the checks and constraints of economic development on the other. The former aimed at determining the criteria of classification of developing countries, and the latter at establishing the factors which have to be taken into account by economic policy. For this purpose statistical measurement and comparison as well as the description of the phenomena are more or less appropriate. This method can, however, be disapproved of if, and when, some statistical indices and comparisons made on the basis of these indices are made up into a theory of criteria on economic development, and/or the description

of evident phenomena or the summing up of less superficial constraints becomes the theory of the causes for economic development.

It seemed that Marxist economics could give no answer at all to the concrete questions of economic policy and the long-run questions of development-strategy of the newly developing countries or only a very general over-simplified schematic one (e.g. immediate nationalization, turning down capitalist assistance and loans, removal of colonial civil servants, etc.).

However, even with too general and summary explanation Marxist theory did come relatively close to the correct theoretical interpretation of general economic development than Western theories.

The vacuum that appeared in answering the concrete questions on further development—taking into account the very specific, peculiar conditions of the developing countries—induced theoretical research work to cover a wider range than hitherto. The situation as a result radically changed within a short time. This is shown not only by the large number of Marxist works published over the last two decades, but also by their richness in content and ideas, the wide range of subjects they included. They endeavoured to make a comprehensive multi-dimensional analysis and to investigate the new phenomena in accordance with the evaluation of historical processes. Although preconceived dogmatism can still be met with sometimes, or, on the other hand, some kind of over-cautiousness can be observed occasionally in the valuations of the complicated or supposedly complicated development phenomena, yet, in spite of all this, it can be stated without exaggeration that Marxist economics has already an independent chapter for the interpretation of economic underdevelopment and the growth problems of developing countries.

The Marxist interpretation of "economic underdevelopment" is far from being a uniform or homogeneous chapter of political economy. Debates, divergences of opinions and, often, very deviating value judgements and methods of approach are observed. However, attempts are made to explain the phenomenon of economic underdevelopment, the perspectives of eliminating it and the concrete questions on further development—always in relation to history, within the framework of historical interrelations—by concentrating on the main driving forces of social and economic

development, and by analysing phenomena and their causes as dialectical interdependencies.

It would be an exaggeration and over-simplification if we were to declare that Western economics has made less progress in revealing the factors and causes of economic underdevelopment and the interconnections between phenomena belonging to it. However, just for the lack of historical outlook that helped Marxist economics to approach rightly the economic problems of the developing countries, though with some delay and initial difficulties, Western economics never was and is not able even today to enlighten the fundamental issues.

The definition of underdevelopment by statistical indices is a common method of economic analysis. It can be met with particularly in works of less theoretical importance or as a starting point of certain interpretation (e.g. in some vicious circle theories as we shall see later) and, chiefly, in the documents of international organizations. The importance of comparisons carried out on the basis of statistical indices cannot be denied nor that of measuring the differences in the level of development of the productive forces from the aspect of both world economy and national economy. However, the determination of a complex socio-economic phenomenon by means of statistical indices brings about superficial and often misleading results and does not reveal the true causes of the phenomenon. Hence, if the question is raised from theoretical aspects—and not from the practical aspect of economic policy—this starting point is of no avail, and theories based on it of even less.

Usually, the national income per capita, more roughly, the gross national product statistics, is used for economic development analysis.

However, this is not quite a suitable method of establishing unambiguously the real differences in the level of development, and can only be used to demonstrate a given static situation. The calculations of Harbison and Myers [1] show that the difference in levels estimated on the basis of gross national product per capita of the most developed and the developing countries amounts to only about one-third of the difference that exists on the basis of the development of "human resources". However, in the growth of modern economy "human resources" are of significant importance and their development is even more significant than that of

those investments which are considered "economic" in the strict sense of the word. Likewise, scientific knowledge and vocational training have positive correlation with national income growth.[1]

The index of national income per capita is inconsistent with a dynamic approach. It over-shadows the production conditions, distribution and utilization pattern of the national income although these factors play a decisive role in development from the aspect of the inner possibilities or the barriers of development. In addition, in the developing countries the computation of national income statistics is fairly difficult, for there are almost unsurmountable barriers in the assessment and evaluation of the production of the subsistence sector and, often because of unrealiable census data.

As Myint [2] points out, "owing to imperfections in basic statistics in calculating both the total national income and the total population, the per capita income figures for many underdeveloped countries are still very crude and liable to wide margins of error.... Low income per capita, however important, is only one aspect of the complex problem of underdevelopment and a definition of the underdeveloped countries relying solely on the per capita income criterion is bound to be arbitrary."

Some authors have used instead of or as complementary indices, other statistical indices. For example, Patel [3] makes comparisons in the per capita production of certain sectors and branches, and introduces the growth rate of the per capita income in order to determine the differences, and by so doing tries to illustrate underdevelopment in a dynamic way. Rosenstein-Rodan, [4] too compares with retrospective effect to 150 years the average rate of the income and population of the developed and underdeveloped countries.

These comparisons are interesting, instructive and undoubtedly precise, but do not bring us closer to the true causes of economic underdevelopment. The same applies to classifications on the basis of or complemented by indices representing the percentage of the agricultural population, rate of employment, some kind of living standard index, e.g. the quantity of calories consumed per capita, etc.

All these indices interconnect phenomena of a very different

1. Tinbergen and Boss have performed such calculations. J. Tinbergen and H.C. Boss: La demande globale en matier d'enseignement secondaire et superieur des pays sousdeveloppes en cours de la prochaine decenie, Conference held at Washington, October 1961, OCDE, Paris 1962.

origin and motion, and on whatever basis we choose and combine them, categorization on the basis of these indices will always rely on quantitative criteria. They do not point out qualitative similarities and differences. On the basis of these indices countries may be classified into the same group with countries whose driving forces and economic constraints are of a very different character. For example, on the exclusive basis of the level of national income per capita some of the "oil producing countries" will be classified into the group of developed countries, while many countries that have undergone radical social and economic changes might fall under the category of the developing countries. These classifications reflect the actual level of the productive forces at a given time, but conceal the essential differences in production and social relations between developed capitalist and developing countries, as well as the differences in their relation to the world economy. Therefore, they hardly give any explanation of the economic underdevelopment or even a substitutive idea, and the exploration of the true causes of economic underdevelopment remains as remote as ever.

THE LIMITING FACTOR APPROACH

A frequent variant of underdevelopment theories—though independent from the above mentioned statistical classification or rather complementing it – gives an explanation of economic underdevelopment by summing up the limiting factors and obstacles to development. The exploration of these limiting factors, obstacles and constraints is appropriate from the aspect of economic policy, but inadmissible and false if it appears in the guise of the exploration of the historical roots and qualitative criteria of underdevelopment. This kind of explanation supports that "historic" interpretation which considers "underdevelopment" as a simple consequence of lag in or shortfall of development. On the other hand, these hindering or limiting factors often include very superficial phenomena or such that require further explanation, or are not by any means general phenomena in the developing world classified on the basis of qualitative criteria.

Now, let us look into some of these factors not with the intention of belittling the value of the analyses or denying their usefulness, but with the purpose of proving that not even the most carefully selected set of hindering factors can explain economic under-

development. Here, the justified objection could be raised that it was not the aim of the authors, to be quoted subsequently, to give an explanation of underdevelopment, but only to determine the criteria—and this is, in fact, often true. However, we do not wish to challenge the intentions of the authors but to deal with Western interpretations. At this point the question must be raised whether it is right to adopt as criterion an indicator whose origin has not been examined, and whether a method which takes a phenomenon, an indicator for granted can be approved of.

Theories on underdevelopment often emphasize the unfavourable demographic situation in the developing countries.

Sauvy [5] attributes underdevelopment to the following characteristic causes: high death-rate and short duration of life, high birth-rate, no birth-control, insufficient nourishment, high rate of illiteracy, lack of total employment owing to lack of capital, prevalence of agriculture and fishery as compared to processing industries, low social status of women and child labour, insufficient development of the middle classes, authoritarian political regimes, and lack of democratic institutions.

Thus, Sauvy mentions high death and birth-rates in the first place among the criteria characterizing underdeveloped countries. This was, indeed, originally characteristic of the traditional or more precisely pre-capitalist societies. Today, however—though death-rate and the increase in life expectancy rate continue to be still very unfavourable—the decrease of the death-rate together with an unchanged high birth-rate bring about a quick increase in the population. From the aspect of social and economic developments the movement of the two rates in relation to each other is more important than their absolute high or low level in itself or compared with that of other countries. On the other hand, the deviation of the two rates from each other cannot be explained by the nature and conditions of traditional society.

Sauvy's endeavour of explaining underdevelopment not just by economic but also by social, cultural and political factors, deserves credit. However, there seems to be a certain confusion regarding the character and interrelation of the factors. For example, in addition to the first two factors, third, fourth and seventh could be explained on the basis of the relations of traditional societies, whereas employment and influx of capital, and the characterization of the sectoral structure point to the Western interpretation of

production relations. Last two criteria at a first glance, reflect the peculiarities of traditional societies. Here again, the Arab and Asian feudal structure cannot be evaluated identically with the primitive communal system based on equality of certain tribes in Tropical Africa. Similarly, the lack of democratic institutions may be characteristic for modern regimes too, and it is not clear as to how it can be evaluated on the basis of the formal existence or non-existence of certain institutions. Thus, it seems that Sauvy's criteria contain very heterogeneous elements that cannot be included in a uniform system of causalities.

According to Gannage [6], the high rate of birth, i.e. a demographic factor, is of primary importance among the criteria of underdevelopment. In his view the great increase in population due to the high rate of birth is one of the main hindrances to development. His system of criteria is insofar similar to the earlier mentioned one in that it contains both economic and social factors and these factors as links of very heterogeneous nature and of very different levels belong to very different chains of causal interrelation. The criteria enumerated by him, are prevalence of agriculture and mining, insufficiency of capital, disequilibrium and rigidity of the social structure, adherence to traditions, and passive attitude of the population in regard to the necessary changes. In his case, too, some of the factors refer to traditional or capitalist societies. Gannage, however, throws light on the interrelations by investigating the dual socio-economic structure, different vicious circles, and certain international aspects.

Singer [7] stresses upon the increases in population as the consequence of the simultaneously diverging motion of the birth and death rates and the unfavourable distribution of age. He emphasizes that unfavourable age distribution the high rate of dependent children within the population) is a greater obstacle to economic development than high birth-rate itself.

The eminent French economist Perroux [8] also points to demographic factors, i.e. to the quick increase in population due to the decrease of infant mortality and unchanged birth rate, and—referring to Indian data—to the unfavourable age distribution and the high rate of only-consumers. Perroux, however, brings demographic problems into close connection with questions of production and productivity, proving in this way their relative character.

Viner [9], also believes that the high rate of population increase

to be one of the main obstacles of economic development. In his opinion this may become critical when infant mortality—due to improved sanitary conditions—decreases at a quicker rate than the possibilities of productive employment increase. Thus, Viner connects the question of employment with the problem of population increase, and explains this later with the progress of medicine.

Meier and Baldwin [10] take the same view. "Population pressure" is in their opinion a characteristic feature of the developing countries and it is embodied in three principal forms: (a) latent unemployment in agriculture; (b) high rate of dependent children per adult due to high birth-rate; (c) rapid increase in population due to falling death rates with high birth rates. In their view "population pressure" is the cause for superabundance of labour force in the developing countries: since the supply in labour will always exceed the demand, the growth of any of the economic sectors (e.g. the export sector) will not bring about the increase of real wages.

"Population pressure", also emphasized by Viner, is the result of the fact that extensive application of modern sanitary measures and the progress of medical science brings about decrease of the mortality rate, while the birth rate does not decrease accordingly.

The increase in population in the developing countries is really fast and it is often described as "demographic explosion". The rapid increase in population and particularly in the number and proportion of young people dependent on adults, further deteriorates the economic indices (income, consumption and production indices per capita). It places more demands for enhanced, multiplied energy in order to attain a higher level, and in addition means a great burden in the sphere of food-supply, public education, health provision and social services, and aggravates the labour problem too. For the sake of clearer understanding, here only one fact should be mentioned, namely that from 1962 to 1970 the population of the developing countries increased by more than 300 million people, that is, approximately the combined total population of the U.S.A., Britain and France.[2]

The unfavourable age distribution is best demonstrated by the

2. Sherwood M. F. La croissance economique dans les pays moins developpes, L'Observateur de L'OCDE, No. 5., 1975.

fact that while in the developed countries the productive age group amounts to 70 percent and those under 15 years of age make up only 20–30 percent of the total population. In the developing countries this proportion amounts to 60: 40.[3]

It would be foolish to deny the importance of the above factor. However, the aspects of the "demographic factors" in space and time, its causes and mainly the relation of its causes and effects to economic development require through explanation.

On one hand, the perspectives of the problem of population increase differ considerably in case of the densely populated countries (particularly if their natural resources are scarce) than in the sparsely populated countries It is true that fifty percent of the total population of the developing world lives in five countries (China, India, Pakistan, Indonesia and Nigeria) and of these China, India and Pakistan – and also certain regions of Indonesia —are very densely populated. This, however, does not justify sufficiently that all developing countries—including the very sparsely populated ones—should be judged identically on the basis of the high rate of population increase.[4] In a considerable part of the world (chiefly in Tropical Africa and in some parts of Latin America) lack of manpower is one of the chief causes for natural resources not being utilized. For example, UN .951 African report ascribes the backwardness of the African countries and the poverty of the people to low population density[5] Far from fully agreeing with this latter statement, yet it is obvious that looking at matters from a certain prespective, i.e. apart from the transitional problem of age composition the rapid population increase, for a long-run might boost the development of the sparsely populated countries of Tropical Africa and Latin America.

On the other hand, the phenomenon itself, namely the rise in the rate of the population growth requires some explanation. It does not suffice to compare the motion of the two rates and to explain the decrease of mortality by improved health services and protec-

3. Ignacy Sachs: Patterns of Public Sector in Underdeveloped Economics, Asia Pub. House, Bombay, 1964, p. 6.

4. In our view, underdevelopment theories are, in general, greatly influenced by concentrating on the economic problems of over-populated Asian countries. This is understandable and justified from many aspects though it often leads to erroneous generalizations.

5. Review of Economic Conditions in Africa, New York, 1951.

tion from epidemics, for the essence of the question is whether the divergence of the two rates is a natural demographic symptom or not?

If the answer is affirmative, then it ought to be provable by the history of the developed countries. This, again, raises another question, namely, why did it not bring about economic underdevelopment there, why has the development of the developed countries not been hindered by it? It is also pointed out that developed countries had also to pass through that demographic phase during which, besides unchanged birth-rate, mortality rate started to drop. This, however, did not by any means hinder economic development. Moreover, economic development and decline in mortality rate coincided until the birth rate started to drop at a certain stage of development.

If, however, the deviation of the two rates is not to be considered a natural symptom (or if the order of magnitude considerably differs from that it has been in the developed countries), what might be the cause of this more or less new phenomenon?

Meier and Baldwin point out that, in the case of the present developed capitalist countries the decrease of mortality was the consequence of economic development, whereas in the case of the developing countries it is attributable to improved health services, i.e. it is more or less independent of economic development. If Meier and Baldwin are right, then a new question arises: why did economic development lag behind the development of sanitary conditions and demographic development in the developing countries? It appears that the high population increase does not account for economic underdevelopment. In order to understand the development of the demographic situation, the latter has to be explained first. Thus, Viner's statement, according to which high population increase only involves dangers if the possibilities for extended employment do not increase at the same time, means that the high rate of population hinders development if the latter meets with difficulties anyway, i.e. if economic underdevelopment de facto exists.

Kuznets [11] gives a clear idea on this interrelation which, in fact is an inverse connection. He expounds the differences and the dissimilar conditions between the demographic pattern of the developed countries prior to their industrialization and the present demographic pattern of the developing countries. Kuznets reaches

the conclusion that the present higher birth-rate of the developing countries is the consequence of their lower level of developemnt, whereas the fall in the death rate is the result of that economic development, technical and medical progress which has been achieved by the developed countries. The present developing countries have no recourse to emigration, that possibility of decreasing "population pressure" which had formerly been available for European countries, "in the painful period of adjustment to the industrial system". Thus, today they have to pay the penalty of being late.

"Demographic pressure" as a hindering factor is included in almost all Western development theories in some way or other. However, in our view it will never be placed as high or be the main point of the interpretation as it has been in Malthus's theory of growth in the nineteenth century. Though Myint [2] also points out the interrelation between overpopulation and underdevelopment which in his words "mutually aggravate each other in a vicious circle," yet at the same time he adds that the concept "overpopulation" is not the answer to the problem. It may sometimes be the chief cause of backwardness, although many backward countries are not under the pressure of overpopulation, or have become overpopulated only lately. Meier [10] states that "overpopulation is identical with underdevelopment" though "not an answer to the question" and that "the problems of increasing capital per head and raising per capita real income are common to all backward economies, whether overpopulated or not." Today, many of the Western theoreticians attack the views of Malthus or accept them only with some reserve and consider "overpopulation" as a relative symptom (relative even on the basis of the actual technical level and resources).[6] For example, Clark [12] concerned with

6. Referrin to Pro. Jorgenson, F. Paukert emphasizes that the problem of "the balance between capital accumulation and the growth of population" is a question of primordial importance in the theory of development applied to developing countries (contrary to the problem of "balance between investment and saving" in the theory of growth applied to developed countries). A.A. Dawson contrasts "the continuous growth of population in the traditional sector" with "the slow or arrested growth of the modern sector" (see: Lectures on Economic Development, Delivered to First Study Course: 17 September–7 December, 1962, International Institute for Labour Studies, Geneva, 1962 pp. 43–47).

the problems of population increase and living standard, strongly attacks Malthus. In his view, the law of diminishing returns is only valid in default of change over to more modern methods of cultivation and failing to employ more capital, just these requisites cease in the course of development. Classifying 26 countries with respect to the relationship between the intensiveness of cultivation and agricultural output per person engaged in cultivation, Clark proves that there is no regular interrelationship between density of population and average product per head. For example, the yield in Denmark per capita is five times that of Turkey though the density of population is identical in both countries In Denmark, 10 men engaged in agricultural work per one square kilometre of cultivable land provide for 200 people. Proportionately if "population pressure" is determined on the standard of Danish agriculture, only Belgium, Netherlands, Japan and Switzerland (none of them backward countries) can be regarded "overpopulated", while Latin America, Africa, the Middle Eastern countries, and India, Pakistan and Indonesia too, cannot be regarded as being overpopulated. Thus, it is obvious that low agricultural yield per capita is not caused either by over-population or backwardness.

Without understanding the harmful consequences of the rapid increase in population, the unfavourable age distribution and the serious problems of "demographic pressure," it should, finally be stated that these factors cannot be included either in the historic dialectics of economic development or in the general explanation of this complex social economic situation, even if they act as a constraint on development in the short-run—either looking ahead to the near future or reviewing the recent past.

In addition to the high rate of population increase, Viner [9] refers to the low level of productivity as a hindering factor and ascribes it partly to unfavourable natural endowments (poor quality soil, jungles, lack of mineral resources and water power, unfavourable climatic conditions and precipitation, transport difficulties, disadvantageous geographic situation from the aspect of foreign trade, etc. and partly to the poor quality of the working people.

Low productivity is, undoubtedly, a characteristics of the developing economies. Not even Viner says, however, that it is attributable to the lack of natural resources. A case in point is Switzerland whose unfavourable natural conditions did not prove an obstacle to its development. From the aspect of social evo-

lution, natural endowments have doubtlessly enhanced importance until the productive forces will have reached a certain level of development, and it is undeniable that the conditions of life and the developments of natives living in the depth of jungles is mainly determined by the forces of nature even today. The natural conditions and environment of the developing countries cannot be considered unfavourable on the whole, for it is well known that some countries in Africa, Latin America and Asia are rich in mineral resources,[7] others, again, have mighty waterpowers[8], and, though in some countries the climate is unfavourable, in others again it is advantageous to an increased degree (e.g in the tropics where rainfall is copious).[9]

For transport and trade, the geographic situation might be of vital importance and, in general, insufficiently developed transport and/or the high costs of its development as well as the remoteness from commercial lines are, in fact, considerable obstacles to development.

At the same time, the range and level of the transport system depends upon economic development, its course being determined by the centres of economic growth. Today, natural obstacles are no longer unsurmountable barriers. Thus, the insufficient level of transport may be an obstacle to quicker economic development, though it is by no means a determinant of underdevelopment; it is rather a concomitant symptom. At the present stage of development of world trade and communication, one cannot attribute exaggerated importance to unfavourable geographic situations from

7. Latin America possesses one-third of the global copper and iron resources, one-tenth of the crude oil, zinc, tin and lead resources, one-sixth of the nickel and manganese resources, two-fifths of the bauxite resources and stands first in the capitalist world the production of 22 important minerals. In Africa, Ghana, Guinea and the Congo could produce bauxite that would amount to three times the quantity of the world's aluminium production needs at present. Zambia has one-fourth of all copper reserves and Gabon the second largest manganese ore occurrence in the worlds etc. India's iron ore reserves amount to about five to six times those of Britain or West Germany. The oil wealth of Middle East countries amounts to one-fourth of the crude oil production of the capitalist world.

8. Africa's water power potential amounts to about 40-50 percent of the potential hydraulic power of the entire world.

9. In Latin America there are immense areas of virgin lands which could yield three crops annually if they were cultivated.

the aspect of foreign trade, since the most remote parts of the world are well connected through the world trade, and in the economic life of the majority of developing countries, foreign trade plays a decisive role.

Meier and Baldwin [10] also point to natural resources as one of the factors of economic underdevelopment. However, in other of his studies Meier makes the matter perfectly clear by declaring that though it is now very popular to refer to lack of resources and it is also undoubtedly true that the latter restricts the possibilities of development, in 1870 very few countries could have been considered to be lacking in natural resources. "The present phenomenon of a low amount of resources per head is the result of either the exhaustion of resources or such a rapid growth in population that it now puts pressure on the available resources."

Meier regards the abundance of or lack in natural resources as a relative symptom —an opinion we agree with – and mentions that as regards natural resources, the situation of the developing countries is more unfavourable at the present than it was in 1870. The fact that the existing resources became "exhausted" so soon, and turned out to be scarce after a rapid increase in population ensued, might prove that they had been limited in an absolute sense too. If resources did not represent a barrier to economic development earlier (only since they became exhausted and scarce as compared to the size of population) then an answer is needed to the question: why did they not (or slightly) boost development when and where they were still available in abundance? This is the right place to point out why it does not suffice to mention only the exhaustion of natural resources without disclosing the fact, by whom and for which purpose have the resources been exploited? Did the given national economy benefit from the exhaustion of its resources? And was the exhaustion of the resources justified at that time and to such a degree from the aspect of development of the national economy?

It is obvious that a truly historic answer is needed, and not some sort of explanation based on the "natural" exhaustion of resources or demographic trends.

Regarding the scarcity or abundance of natural resources, it should also be noted that it is not right to speak about the "drying up" of resources with regard to the never-to-be-finished state of geological research (which is in an initial stage in the develop-

ing countries).[10] On the other hand, the actually more unfavourable situation as compared to the last century is the result of the decreasing volume of natural resources to a slight extent only, whereas it is far more due to changes in the international division of labour and world trade.

Several economists, e.g. Myint, do not deal with the question of natural resources in the sense of absolute plenty or poverty but as a question of utilization of potentials.[11] In Myint's view "underdeveloped resources" (in connection with "backward people") are one of the factors of underdevelopment.

The term "underdeveloped resources" means, in fact, the insufficient utilization of potential resources or the non-optimum allocation of the given resources among alternative uses, i.e. "a species of deviation from the productive optimum." This means that the factors previously called "unfavourable natural endowments" has now been replaced by under-utilization of natural resources (which are, sometimes, available in abundance) as a criterion of underdevelopment and obstacle to development, respectively.

This is, doubtless, a far more real criterion than the generalizing criterion of unfavourable natural endowment though it does not elucidate the crux of the matter, i.e. the roots of underdevelopment. Here too, quite a number of questions remain unanswered.

Viner also stresses the importance of the unsatisfactory quality of the working population which is one of the causes of low productivity, and consequently also an inhibiting factor to economic development.

In addition to the unfavourable quality and composition of industrial and agricultural labour Viner points to the lack and insufficiency of entrepreneurs, managers, engineers and technicians.

10. The book of J. Barnett and C. Morse, Scarcity and Growth. The Economics of Natural Resources Availability John Hopkins Univ. Press, (Baltimore, 1963. p. 288.), sets this problem in its proper light.

11. Viner, too, stresses the utilization of potentials, when he defines the concept of underdeveloped countries by declaring that an underdeveloped country is the one "which has good potential prospects for using more capital or more labour or more available natural resources to support its present population on a higher level of living or if its per capita income level is already fairly high, to support a larger population on a lower level of living." (See his article in A.N. Agarwala and S.P. Singh, The Economics of Underdevelopment, OUP, London, 1958).

According to Viner, the differences—as compared to developed countries—are attributable to historic and cultural factors, environment, quality of health, nutrition and education as well as the quality of the leadership provided by government and the social elite. Viner adds that where there is a traditional agriculture there is often a strong resistance to technical education and tuition of natural sciences.

There is no doubt that the poor quality of labour, the social and cultural backwardness of the population and the lack of skilled labour is a considerable obstacle to development though it is rather the consequence and not the cause of underdevelopment. Viner, too says that the quality of labour is a function of economic development and is right in explaining it, among others, with historic factors. However, he does not deal with the question why the quality of the working population did not improve considerably even within the given limits of economic development, why the technical and professional skill of labour did not make a considerable progress, and the physical and mental energy develop. This problem is particularly noteworthy, for arguments can often be heard according to which the backward peoples are poor because their production is insufficient due to the very low productivity of labour. We cannot confine ourselves to arguing with historic factors or referring to the qualities of the past century. It is a purely objective question: which concrete historical factors did hinder the qualitative improvement of the working population and upon which government lies the onus in this respect?

The concept of "backward people" is even more comprehensive and mixed and expresses the fact that the population "has been relatively unsuccessful in solving the economic problem of man's conquest of his material environment." It is reflected in the low labour efficiency, factor immobility, limited specialization in occupations and in trade, lack of entrepreneurship, economic ignorance, rigid and stratified caste-system-like structure of society, "lack of individualism" in the institutions, in society's religious and moral scales of value, etc. According to this definition the lack of entrepreneurship and entrepreneurs and, in general, the absence of the spirit of individualism belong to the criteria of the backwardness of people.

The physical and intellectual qualities, and the composition of labour forces are not so much the determinants as the functions

of economic and social development, being dependent on food-supply and nutrition, sanitary and social conditions, on one hand, and on the level of education and professional training, on the other. Their insufficiencies are, however, the consequence and manifestation of "economic underdevelopment" makes precious little progress if we point to the poor quality of labour as an obstacle to development, and afterwards explain this by the impeded slow development, by the underdevelopment, itself. Even if we were able to throw light on actually existing interrelations and interdependences, we could not reveal the historically and logically correct chain of the fundamental and/or the secondary, accessory causes and consequences.

It is true, that there is not always a close correlation between the level of education and that of social and health provision. Moreover food supply to the people on one hand, affects the level of the economic development on the other, because the development of the former depends on the character of the society, distribution and utilization of incomes, and, finally, on governmental decisions.[12]

Viner [9] also emphasizes the importance of socio-political factors, and Gannage [6] includes the rigid pattern and passivity of society in the criteria of underdevelopment. Myint [2] discusses the question of "backward people" in a comprehensive way and deals in detail with the unbalanced relationship between society and changed economic environment, maladjustment of society and its members, "plural society" and, in general, with the importance of exogeneous, extra-economic factors. He outlines the distinction between the economic and the social side of the underdevelopment, productivity and incomes, and as the economics of social discontent and maladjustment. In another study, he points to the social peculiarities in the developing countries and the importance of taking them into consideration adequately.

Searching into the causes of the brakes and obstacles to development, Perroux [8] attributes them to social institutions, mentality and social customs, i.e. the social and mental structure of population, including the system of large estates, lack of insufficiency of propensity to innovate, slight readiness to work, lack of

12. This is best proved by several socialist countries which have established education and social institutions and health service on a considerably higher standard as compared to their national income per capita.

innovators and entrepreneurs in the sense of Schumpeter, and considers the following—exogeneous, non-economic–changes, to be necessary in order to speed up development; institutional changes, transformation of mentality and changes to be brought about in the sphere of social customs.

A number of well-known authors who are concerned with one or another social aspect of "economic underdevelopment" could still be quoted.[13] This goes to show that investigations on social environment, reaction, tendencies, motions, and institutions of society are placed high within the Western theories of underdevelopment. It has to be admitted that these analyses reveal quite a number of elements and interconnections which are vital from the view point of economic policy in a wider sense, and considerably contribute to universal knowledge.

However, from the aspect of the required analysis penetrating deep down to the roots of "economic underdevelopment" it has to be said that social attitude, customs, and reactions, even the institutions are not sufficient explanations in themselves. On the contrary, being consequences, they require further explanation, and, therefore, any reasoning based on them is not only insufficient, but has to be considered erroneous.

The reason why we disapprove of these works is by no means the simple fact, that the authors representing Western economics do not explain the character of social customs and institutions by starting from the proper basis, i.e. from social and production relations. The above mentioned determinism holds good "in the final resort" only, and it would be vulgarization of Marxism if we were to deny that socio-political, religious, moral and legal institutions, ideas and customs (the so-called "superstructure") have considerable influence on the economic basis itself.

However, we must criticize if customs and institutions characteristic of the traditional society only, are generalized without further explanation and regarded as pertaining to the entire society, that is, if the entity of society of the developing countries is considered traditional, pre-capitalist society. It is true, that relying on this

13. Reference should be made to two interesting studies of Aamir Ali, Social Background of Economic Development; and B. Jouvin's, Mobilisation of Public Support for a Development Programme (Lectures on Economic Development, Geneva, 1962).

erroneous supposition, the obstacles to the growth and rapid development on a modern economy could be explained. But the defects of this supposition is not only proved by the fact, that both economy and society de facto include capitalist elements, but also becomes obvious by the evaluation these authors gives on social reactions.

The statement that the market-knowledge of the peasants is insufficient implies the fact that there is a market which they ought to know better. By referring to the maladjustment of individuals with regard to modern economic conditions, we obviously assume that these conditions in fact exist. If we speak about the immobility of labour force from the aspect of employment and wage work, then we understand tacitly that capitalist conditions of wage employment do exist. Thus, traditional customs and reactions have been sized up in relation to another (modern) socio-economic element. In this case, however, it does neither suffice nor is it right to explain these customs and institutions by themselves.

Lack of capital is generally considered as one of the most characteristic features of economic underdevelopment, the more so, since it seems a suitable explanation for the low level of productivity, the acute problem of unemployment, and in general of underemployment, and for the underutilization of potential natural resources. The demand of the developing countries for international financial assistance, the growing deficit of their budgets and balance of payments, and local credits granted at high rates of interest confirm the assumption that the fundamental causes and methods of treatment of economic underdevelopment should be searched for along this line. From the many factors that hinder development most of the authors attach particular importance to lack of capital.

In view of most authors besides the quality of natural and human resources, the scarcity of capital is an important factor of underdevelopment. In their opinion capital scarcity should be compared to opportunities for profitable investments and it is more correct to apply the index of utilized capital per capita within the country than the amount of capital per capita owned within the country.

Such a view touches upon an important problem. It might be justified to measure the degree of capital supply of a given budget or of a development programme extending over several years with the available or actually utilized capital. However, viewed from

the present and the future of a nation, it is by no means of secondary importance to what extent it can rely on its own resources, to what extent the position of the foreign capital increases in the country and to what extent the country depends on foreign financial assistance. From the view point of the interpretation and historical explanation of "underdevelopment", it is even less important, if we under-emphasized the differences between the origin of the capital in use, and the foreign capital or national capital. As we will try to prove it in this study, it is the activity and dominant role of the foreign capital which brought about—deliberately or spontaneously—some of the factors to be considered as the qualitative criteria of "underdevelopment".

As regards the relative interpretation of the insufficiency of capital supply we agree with them. Concerning the opportunities for "profitable" investments the question, however, might be raised: should "profitability" be explained on microeconomic level or on a macroeconomic level based on long-range national economic perspectives? Even apart from this problem, as Baran [13] considers capital insufficiency and the deficiency of investment possibilities as two aspects of one and the same problem.[14]

In this context it appears how unsatisfactory and superficial criterion and explanation the lack of capital is. On one hand it has to be explained as to what kind of factors the lack of capital is to be traced back to, and how it became a chronic phenomenon, on the other an explanation is needed as to the barriers of investment opportunities. In a number of developing countries (mainly in Tropical Africa) capital import on a larger scale is limited by insufficiency of absorptive capacity. Thus, at some places, there is rather abundance than lack of capital (of course in a very relative sense) as compared to the concrete possibilities of profitable investments. Schatz [14] points out that "frequently the belief that a capital shortage is the effective impediment to indigenous private

14 In his books and studies: The Political Economy of Growth, New York, 1957, (Prometheus Edition 1960), and "On the Political Economy of Backwardness" in Singh and Agarwala, Baran has given a thorough and excellent analysis on the political economy of underdevelopment. Viewing the problem from historical aspects and getting to the essence of the matter, Baran elucidates the circumstances under which dual economy and society has developed, discusses colonialism and the role of foreign capital, certain interrelations between the traditional and the modern sector, etc.

investment is mistaken, ..it is an illusion created by a large false demand for capital,...what really exists is not an immediate shortage of capital at all, but a shortage of viable projects." Similarly, Little [15] states that in Tropical Africa the lack of skilled labour, the economic fragmentation of the continent and the lack of knowledge where and how to invest most profitably are far more an obstacle to development than lack of capital.

Although Lewis [16] does not share the view that the lack of skill is a greater obstacle to development than the lack of capital, but accepts the lack of skilled labour as a "very temporary bottleneck". He thinks that in the long-run the bottleneck of skilled labour will be solved in the dynamics of development. "If the capital is available for development, the capitalists or their government will soon provide the facilities for training more skilled people. The real bottleneck to expansion are, therefore, capital and national resources." Without the intention to dispute this statement it is worth mentioning that there are some specific factors in motion which act against the adequate development of education and training even if capital is available.

Here again it has become obvious that "economic underdevelopment" cannot be explained by one or another development hindering factor—whatever acute problem it means in itself. Moreover, not even the aggregate of the various factors provides satisfactory explanation. Undoubtedly, there are causal relations between the different obstacles to development and their revealing is essential. It was just the search of these interrelations that brought about the peculiar conception of vicious circles in western economics.

THE "VICIOUS CIRCLE" THEORIES

Assuming only for the sake of argument that "economic under development" is due to the effect of various factors which hinder development, then it is the question of the causes and interrelations of these factors which arises. Western economics usually gives an answer to this question by devising some sort of vicious circle.

For example, what might be the cause of the lack of capital as one of the hindering factors?

It is the insufficiency of the domestic capital accumulation, which again results from the low level of savings. The latter is, in turn, low because the national income per capita is low, which again

cannot quickly increase because of the lack of capital or that in poor countries the inner accumulation of capital is low. The source of saving is income, and if income per capita is low, the annual rate of saving per capita remains low too. One may therefore say that economic backwardness is due to the fact that total output is low and after consumption needs are fulfilled, little remains as a surplus for capital accumulation. Because of the low level of real income the flow of saving is small. The low level of real income is, in turn, primarily due to the lack of an adequate capital stock, and secondarily to market imperfections. And the low level of capital stock is, in turn, a result of the low level of real income.

What is the cause of poverty in the developing countries?

"A country is poor because it is poor" says Nurkse [17]. "This seems, a trite proposition but it does express the circular relationship that afflict both the demand and the supply side of the problem of capital formation in economically backward areas. . . The inducement to invest is limited by the size of the market. . .and the size of the market is determined by the general level of productivity. Capacity to buy means capacity to produce. In its turn, the level of productivity depends—not entirely by any means, but largely—on the use of capital in production. But the use of capital is inhibited, to start with, by the small size of the market."

In his book Gill [18] introduces the vicious circle theory as one of the general theories of modern economics. He compares the vicious circle of poverty with the self-sustained growth and ascribes the gap between the developing and developed countries to the deviation of the former. "Because it is poor, the country does not develop, because it does not develop, it remains poor."

However, these chains are never complete. Important factors have often been disregarded, and these missing links make the chain doubtful. Lewis is absolutely right when—referring to the interrelation between saving and magnitude of the national income—he declares that "there is no clear evidence that the proportion of the national income saved increases with national income per head. Arguing with Nurkse, Lewis says that saving is not small because of the poverty of people, but because the capitalist (private or state capitalist) sector is so small, and because the share of capitalist profits in the national income is low. Thus, he points to the importance of the distribution of the national income Of course, from the increase in the share of capitalist profits the growth of saving will not follow

automatically, but even if so, it is particularly doubtful whether those productive investments will increase which are most important from the point of view of the whole national economy. This points to the importance of distribution and utilization of the national income, one aspect that has been disregarded in the previously represented vicious circles.[15]

From the aforementioned it appears that in addition to being inaccurate and incomplete, these vicious circles involve such factors which can change without the change of the antecedent factor or remain identical even after the preceding underwent a change. The vicious circle is, in fact, metaphysical and mechanical explanation although it gives the illusion of expressing mutual dialectic correlations. No process repeats itself unchanged over time (apart from artificial laboratory procedures) particularly, and not the motions of society. If there are circular cause-and-effect interrelations and if it is certain that such do exist, then these can only move spirally downwards or upwards and have, therefore, a starting point too. The volute spring, too has a starting point, while the ring has none.[16] Now, if it has a starting-point, then just this starting point,

15. Richard Gill points to the manner of spending incomes, and in this context, to certain negative features of society (that have already been mentioned earlier) If this only means that another hindering factor has to be included in the vicious circle, which is not only the cause but also the consequence of the links, then this interrelation has also to be demonstrated in his figure, which most probably will disclose newer gaps and contradictions in it. If, however, the cause of this hindering factor is outside the circle then just this very fundamental cause must be sought for because it may, in fact, determine the whole circular motion.

16. Gunnar Myrdal, to whose views we shall return later, having transcended the static conception of the vicious circle, investigates the interrelation between the factors that promote and those which hinder development in a dialectic way, and describes a cumulative, spiral ascending or falling motion: "If either of the two factors should change, this is bound to bring a change in the other factor, too, and start a cumulative process of mutual interaction in which the change in one factor would continuously way." (Under the influence of the vicious circle conceptions of the great progress that Myrdal has made become vitiated by his statement that it is useless to look for one predominant factor, a ' basic factor" as everything is cause to everything else in an interlocking circular manner). Regarding the ascending spiral motion Myrdal expresses this motion as follows: "Quite obviously a circular relationship between less poverty, more food, improved health and higher working capacity would sustain a cumulative process upwards." (Gunnar Myrdal, Economic

i.e. the fundamental cause of the circular interrelation, the historical root of economic underdevelopment must be explored.

Contrary to their realistic appearance, the main defect of the vicious circle theories is that they do not reveal the historical circumstances under which the assumed vicious circle originated, nor do they show the deeper lying socio-economic relations nor they reflect the impact on the basic determinant causes.[17]

Trying to give an explanation to the vicious circle theories as such, economists generally see it as a natural, or a given phenomenon. If that is the case, the question however remains unclear as to how did today's developed countries surmount this so called natural phenomenon, i.e. the vicious circle of poverty. If they fail to give an answer to very basic historical question of how the vicious circle came into being, then at least an answer must be given as to how the so the called vicious circle is likely to be broken.

THE "STAGES OF DEVOLOPMENT" IDEA

To speed up the social development of the world and its marked international aspects gives a new and strong impetus to capitalist ideology for producing historical explanations on socio-economic development. It would be an overstatement that the historical approach to socio-economic phenomena is the result of insufficiency of the above mentioned explanations of economic backwardness.

It follows from the fact that explanations need to be given on the coexistence of two different socio-economic systems, i.e. capitalism and socialism and forecasts are expected on the future of this coexistence. However, explanations and forecasts could not be independent anymore from the answers concerning the perspectives of the developing countries that have become independent recently. The anti-colonialist struggle of these countries provided a suitable psychological atmosphere for holding colonialism responsible for their actual backward condition. The criticism of world capitalism, for this very reason, became extremely important

Theory and Underdeveloped Regions, Gerald Duckworth, London, 1957, pp. 16, 19, and 12).

17 Ignacy Sachs is right in saying that without throwing light on the social and historical background, the vicious circle theory assumes "the traits of an apology for the capitalistic system." (See, Patterns of Public Sector in Underdeveloped Economies, Asia Pub. House, Bombay, 1967.)

to the extent that it required historical explanation of phenomenon of economic underdevelopment, and to inc.ude explanation of the countries into the general pattern of socio-economic development with regard to both the past and the future.

Modern historical explanations on socio-economic development are represented in the social sciences by the various theories on the stages of growth and of these Rostow's [19] theory should be mentioned in the first place, for it is the best known and most popular one, and because in it the basic conceptions do not differ essentially. Rostow is not explicitly concerned with "economic development" and touches it only within his theoretical system. However, he considerably influences development theories, and the general character of his conception particularly justifies that his interpretation should be taken seriously.

Rostow explicitly sets his history-explanation against Marxism and endeavours to illustrate the condition and development of all societies which have existed hitherto or are existing at present at a certain stage of one and the same development process, that is, to give—similarly to Marxism—a general historical explanation.[18] But the difference is that in Rostow's view the goal of the process, in its highest stage,—contrary to Marxism—is not embodied by socialism or communism, but by an imaginary stage of developed capitalism.

In Rostow's opinion the socialist countries also represent one or another stage of variant of the general development and will be finally similar to the most developed capitalist countries. Unlike his predecessors, he does not consider the socialist countries' historic absurdity and error. An attempt to weed out his view, therefore, shows a more realistic attitude and the march of time. He tries rather to efface the fundamental differences between the two systems, and to turn or make uncertain their historical succession. The actual opportunity for doing so is given by the fact that in a classification based upon the achieved level of development of the productive forces, there is, indeed a capitalist country at the top. whereas below it there can be found both capitalist and socialist countries.

The fact that contrary to all expectations it was not in the most developed capitalist countries but in the developing and semi-

18. This is emphasized, among others, by the sub-title of his book (The Stages of Economic Growth, A Non-Communist Manifesto, Cambridge, 1960).

developed ones, where the socialist revolution has triumphed first, and these countries could not yet catch up with or outstrip the level of productive forces of the most developed capitalist countries. This very fact gave the theoreticians of capitalism occasion to deny that scientific conception on the process of historical development which was set up by Marx on the basis of a thorough analysis of the relations of production between men and between classes. and to substitute for it a simple scheme built on the present differences of the level of productive forces.[19]

Thus, Rostow, like Aron [20], Clark and others, concentrates on the growth of productive forces and certain manifestations[20] and conditions of the latter. In spite of this Rostow's theory cannot be considered as a one-sided theory for merely technical-economic character. Incidentally, there are not many debatable points as regards the general process of the development of productive forces and of the changes in techniques and economic structure. In accordance with the traditions of the earlier historical schools, Rostow investigates the development of productive forces from the aspect of social development and by illustrating like Roscher [21] the historical changes of the productive forces, tries to rank a certain society, namely, capitalism as the highest stage of social

19. On the same basis, Richard Gill considers Marx's theory being outworn. He points to the fact that Marx who differentiated the "stages" in social development according to changes in the control over the means of production due to class struggle regarded communism "the end-product of the highest stage of capitalism," was greatly mistaken and did not prophesy well because of living in the Western countries or the circumstances subsequent to socialist revolutions.

Although it is beyond our study, it should however be noted that the rebuttal of Marx in this way and the evaluation of Western capitalism as being the highest stage of human development, and thus providing explanations for economic development, stem, in fact, from the lack of understanding of the real historic development. In other words, from such an approach in which the development of the individual countries is analysed individually and separately just as if nothing would have happened if capitalism through colonialism, did not become a world system, as it exists today.

20. Colin Clark differentiates three phases of the general process of growth according to changes in the sectoral structure. (1) Agriculture is the dominant sector in a backward society. (2) In a developing society the share and importance of the processing industry grows as compared to agriculture. (3) In a developed society the weight of the "tertiary" sector, i. e. services, increases (Conditions of Economic Progress, Macmillan, London; 1957).

evolution.[21] Of course, by the very nature of the matter, it does not suffice to investigate only the self-movement of the productive forces. Moreover, the point to be proved is that the development of the productive forces is determined by the social environment and that the most favourable environment is the capitalist society for it ensures the highest development. On the one hand, Rostow considers social relations as determinant of the evolution of the productive forces, on the other, however, he ranks the societies according to the "stages" of historical development on the basis of the level of productive forces.

Apparently this seems acceptable and convincing, for the development of the forces of production depends, in fact, on social relations and, at the same time, the superiority of a society is to be proved by the higher standard of the forces of production. However, Rostow tears away social relations from the economic roots, regards them as economically indeterminable and explains them per se in the last resort. He disregards property ownership the most important and determinant element of social relations. Instead he investigates "propensities" and changes in the "value system" and "behaviour" of society.[22] Thus, no matter how he stresses the importance of the social and political factors and their effect on economic devel-

21. Roscher investigates the economic importance of three factors of production: nature, labour and capital, in the course of history and in accordance with the prevalence of the three factors, he distinguishes three phases in social development: in the first period the rule of nature was decisive; in the second period the role of human labour came to the fore; whereas, in the third and most developed one, capital is predominant. (See, Ansichten der Volkswirtschaft aus dem geschictlicen Standpunkt, 1961.)

22. Six fundamental propensities are differentiated: (i) propensity to develop fundamental science; (ii) propensity to apply science to economic ends; (iii) propensity to accept innovations; (iv) propensity to seek material advance; (v) propensity to consume, and (vi) propensity to have children (see W. W. Rostow, The Process of Economic Growth, OUP, Oxford, 1960).

According to Raymond Aron propensities determining the economic growth can be reduced to three factors: (i) factor of the capacity for innovations (this includes theoretical knowledge, the readiness to apply it, and its incentive as well, the wish for improving pecuniary condition); (ii) propensity to consume, which is related to the investment propensity and appears, in fact, as a problem of capital and finally; (iii) the demographic factor. Aron formulates propensities more scientifically and in a more customary wording than Rostow's somewhat common parlance (see, Dixhuit lecons sur la societe industrielle, pp. 200–201).

opment, and emphasizes that "the achievement of preconditions for take-off requires major change in political and social structure and, even in effective cultural values, it does not appear as a consequence of which causes, on what basis and supported by what kind of forces the pattern of society, the political structure, and the cultural scales of value will change in the last resort. He does not make it clear why propensities differ in different societies, or even in various strata of one and the same society. It seems that a capitalist entrepreneur is not businessman-minded because he is a capitalist, but, on the contrary, he became a capitalist because he took to thinking as a businessman. Similarly the wage workers, peasant or nomade shepherds of a tribe did not become capitalist entrepreneurs just because they have not yet adopted the latter's mentality and their propensities to consume, to innovate, etc. differ.

Marxism does not deny the active influence of social and individual consciousness on material life, economic environment and on the manner of economy. However, beyond certain limits it considers the formation and development of consciousness determined by the material conditions of life, determined by those material circumstances and relations of production under which the given society or individual lives.

If it were true, that economic growth is determined by the way of thinking and propensities[23] of society, and further, if we were to assume that society's way of thinking and propensities are economically non-determined, then it would follow that some nations live in a more developed economy than others only because they have better propensities and a more developed mentality to begin with or could take possession of these propensities by their superior consciousness.

Inevitably, it must follow that economic underdevelopment is due to the backwardness of consciousness and propensities of some peoples. And once we have reached this point we are within an age of the racial idealogy that professes the inferiority of certain peoples. That is why the tracing back of the historical factors of the development of societies and economic growth to "propensities" is so incorrect. That is why reversing the causal relations or sub-

23. According to Raymond Aron the determinent factor of growth is the attitude of economic subjects, i. e. a certain manner of living and way of thinking of the people.

stituting undetermined interdependencies for them are so defective. This is why any theory which narrows down the development of societies to the evolution of productive forces and to changes of consciousness or to those of socio-economic institutions is unacceptable.

If the development of society is abstracted from the natural geographic environment and the production relations, it becomes inexplicable why the development of the productive forces quickens at a certain place and under a certain historical period than at another place or time, and why propensities, customs and institutions differ, or everything is to be ascribed to the capacities of intellect and consciousness. Then we must, involuntarily, arrive at differentiating between superior and inferior man or people.

It seems that in addition to an unsatisfactory explanation and, in our opinion, misinterpretation of the relations between economy and society and of the substance of social development is also an important methodological error in Rostow's theory. He outlines the process of social development in such a way that he places societies neighbouring in space, behind or before each other in time as different stages of a general process of growth (not according to their inner essence and historical substances but on the given level of their productive forces), while the mutual interrelations of their development, and particularly the close correlations that took place since the capitalist world economy developed, scarcely appears in the analysis, and if so, then with prejudice.

The societies of our times each of them individually have varied features, differing socio-economic institutions, historic past and natural geographical environments. Apart from these differences they could, indeed, relatively easily be classified on the basis of economic indices representing the development of the forces of production. Irrespective of these differences, the countries could be classified into the highest or middle groups. And this is the point at which Rostow's logic makes a "salto mortale", for his classification embraces individual features of the societies. For each society in the top group is characterized by certain features and any society which reaches the top group by boosting its productive forces, will assume the same characteristic features. According to him in order to rise to this highest stage on the strength of its productive forces, it must develop these characteristic features.

Thus from groups categorized according to a very narrow and biased aspect, Rostow forms his historical "stages."

It appears that the whole cult of the logic may be justified and made acceptable if the "theory is illustrated by some historical examples and analogies which shows the similarity between the past of the more developed countries and the present of the developing ones. On this basis not only the socialist countries can be classified into one or the other stage of general development, but also the development of developing countries can be considered as one of the cases of the universal and classified into one of the stages of growth. Of course, this is not done explicitly and clearly. The individual stages are far more complex and varied and the historical illustrations are far more numerous. Consequently, it is not easy to detect at first sight the basically a historical nature and sense of this "historical" approach. However, no one can deny that Rostow's work is full of new ideas and thought provoking observations regarding certain general characteristics of growth of the productive forces such that the conception on the "take-off" created a new school in economics and it has, rightly, a great influence on the economic thought.[24]

According to Rostow there are five main "stages". These are: the traditional society; transitional stage—the preconditions for take-off; the "take-off" period; drive to maturity; and the age of high mass consumption. Obviously, from the interpretation of economic underdevelopment point of view, the first three mentioned stages, and particularly the second one, are interesting for the societies in the traditional and particularly in the transitional stage, as represented by Rostow, are doubtlessly similar—in some way or the other—to the majority of today's developing countries.[25]

24. Of course, not all economists agree with Rostow's "take-off" theory. Francois Perrou for example suggests that it is not proved by statistics.

25. In his study Rostow classifies underdeveloped countries into four groups on the basis of their economic indices: (a) pre-take-off economies (where the apparent savings and investment rates, including limited net capital imports, probably come to under 5 percent of net national product), (b) economies attempting take-off (where these rates have risen over 5 percent of net national product), (c) growing economies (where these rates have reached 10 percent) and (d) enclave economies where the rates have reached 10 percent or over but the domestic conditions for sustained growth have been achieved. Thus the majority of underdeveloped countries is classified into the transitional stage.

Moreover, some of the aforementioned characteristics[26] of the transitional stage are far more or exclusively characteristic of the developing countries of our time and not all illustrative of any previous historical period of development of today's most advanced countries of the West.

Rostow in his analysis on economic development considers Great Britain, even within Western Europe such a special case, for it was Great Britain which has first surpassed the traditional stage under the influence of a number of various and mixed factors. Such factors were—according to Rostow—the gradual evolution of modern science and the modern scientific attitude (due, among others, to the impetus given by the discovery of new countries and continents), the settling of political and religious questions, increased social mobility, the role of nonconformists in the process of industrial innovation, on the one hand, and the widening of the external market, the upswing of foreign trade, the increased specialization of production, and "the extension to trade and colonies of the old dynastic competition for control over European territories," on the other.

Regarding the first group of these factors, the same question has to be raised as to what kind of real and objective processes did determine this change and progress? For, if this question remains unanswered, we are bound to come to the conclusion that English people have specific and superior intellectual faculties than other peoples.

On the other hand, if the factors belonging to the second group are the determinant ones, a new question arises: How could Britain have reached at all historically and economically the stage that enabled it to penetrate into external markets, foreign territories and colonies? It appears at once that international trade and those "mutual relations" between nations which contributed to Britain's (and Western Europe's) take-off were by no means equally advantageous for all partners. And if so, why do we not search for the causes of economic underdevelopment of other countries and mainly for that of the colonies along this line? Do we not stray into a peculiar blind alley of thought by assuming that the

26. As a matter of fact, Rostow outlines these criteria far less accurately and mentions a number of other characteristics, and various historic examples. Therefore, if we want to get to the core of the subject it needs explanation.

rise of Britain (and Western Europe) from the traditional stage has been promoted by the broadening of international economic relations, whereas in the case of the other participants of the same relations the pre-condition to rise was that Britain (and Western Europe) should already have reached the stage of take-off.[27]

But apart from the details, what should we think of such a theory of growth which makes an exception to the rule of "general" growth just in the case of that country which started as first in the process of growth?

Rostow considers the present situation of the former colonies a natural stage in the general evolution which every society had to or has had to pass. Distorted foreign trade patterns and one-sided dependence are not harmful consequences of colonialism; moreover, even colonization itself can only be put in a favourable light. The important role of foreign capital in financing, the specialization for primary production and export of raw materials, etc., are considered to be normal preparations for the take-off. And the infiltration of the ideas of more developed societies into the traditional ones represents the "positive demonstration effect" of colonization, a likewise important element in the preparations for take-off. Rostow admits that colonization also has its "negative demonstration effect" forcing the will of the more developed society on the underdeveloped one by use of sheer military force. However, in the last resort this is also favourable for "without the affront to human and national dignity caused by the intrusion of more advanced powers, the rate of modernization of traditional societies over the past century and a half would have been much slower than, in fact, it has been."

The historical explanation of Rostow and others on the present situation of the former colonies provides the theoretical basis for the terms "economic backwardness" and "underdeveloped countries." If it is true that the matter in question involved is that these countries go through the same natural stage of the general process of growth but only a bit late (due to various inner factors) —as the developed countries underwent earlier—then it is to be

27. In this context Rostow declares that "Britain's 'take-off' set in motion a series of positive and negative demonstration effects which progressively unhinged other traditional societies or accelerated the creation of the preconditions for take-off."

considered backwardness in the strict sense of the word, indeed. In this case, colonialism cannot be made responsible for the condition itself, and appears exclusively as the accelerator of advance. If the society of a colonized nation goes with some lag through the same stages of development the colonizer himself underwent, and if after colonization has ceased, the colony finds itself in the same stage the colonizer was, then it is obvious that colonization has not changed fundamentally the direction and process of development. Then it did not deflect the further development, of the two poles, i e. colonizer and colony, on the contrary, it rather brought about their approach, or even accelerated development.

Rostow's theory has been criticized by a number of noted Western economists. Most of them disapproved of the manner the periods were determined, of those economic and non-economic criteria on which the classification was built its statistical basis, striking simplifications and the unscientific terminology, as pointed out above. Perroux attacks the basic conception itself and declares: "In economic history the stages of development differ from those periods of growth which are characterized by the percental acceleration of slowing down the growth of production. Kuznets compares the conditions in the developed countries prior to industrialization with those in the developing countries of today. He reaches the conclusion that the latter are in a far more disadvantageous situation from the aspect of both income level and demographic conditions, than the developed countries had been at an earlier stage: "Both the absolute and relative economic position, as well as the general cast of the immediately antecedent history, of the now developed countries in their pre-industrial phase were cardinally different from the economic position and the immediate historical heritage of the developing countries of today."

As it has been pointed out earlier, the theories explaining "economic underdevelopment" by relying on factors which hinder development and/or their vicious circle, are to cope with the question why these factors did not manifest themselves in the earlier periods in the history of the already developed countries, and if they did, why and how the latter could manage to get out of the vicious circle of these factors? This requires a logical answer. Rostow tries to trace in the history of the developed

countries that stage which corresponds to the backwardness of our times. However, it is evident that he did not succeed.

Moreover, if it could be proved—as the calculations of Kuznets, and even the most superficial economic indices and symptoms demonstrate it—that there is a considerable deviation between the present situation of the developing countries and the supposedly analogous condition of former societies, then this difference cannot be explained by merely the inner self-evolution of these societies. The inner self-evolution of societies shows the same trend and passes through the same main stages. Delay, lag and loss of time can be explained by local potentialities and inner factors. However, there must be certain external causes if the basic trend and the main stages of development mutually differ. Hence, "economic development" is also dependent on external factors.

The external factor, i.e. the system of international economic relations and colonialism itself, did not play only the positive role as Rostow assumes, namely, that it set going the traditional societies by demonstrative effects. If its role had been confined to only that, it would have placed them in the same advantageous position, in the same stage-within a shorter time. However, instead of that it diverted the process of development, brought about another kind of "stage" and increased the difference in development as Kuznets rightly states: "not only have the relative differences among the developed, and underdeveloped countries, judged by per capita income, persisted over the last century, but the disparity has increased.

It is thus obvious that neither can economic underdevelopment be satisfactorily explained by internal factors nor can it be attributed as a natural stage of general growth. It obviously is related to the world economic processes which have taken place during the past one or two centuries and the interpretation of economic underdevelopment cannot leave out the external and international factors and their negative effect.

THE EXTERNAL FACTORS CONCEPT

Deducing the conditions of the developing countries of our times primarily and fundamentally from the development of international economic relations and effects of colonization, Myrdal's [22] conception rises far above the level of most economists. Focussing his attention on the relationship between the "mother-countries"

and the colonies, he examines the disequalizing effects which manifest themselves in this relationship. Myrdal's statement that "the now highly developed countries were able to develop as small islands in the large ocean of underdeveloped peoples, they could exploit them as sources of raw materials and markets for cheap industrial goods and could for this purpose even keep them under colonial domination, "seems to be an answer to the theories searching for analogous "stages" of growth and considering present "backwardness" a historical transitional stage of general validity.

Myrdal is very resolute when he points to the economic disadvantage the dependent country has to suffer in its dealings with the "mother-country." He emphasizes that the development of international trade increases the disparities, i.e. relative backwardness, owing to the deterioration of the terms of trade to the developing countries. He points to the negative effect of the economic policy of the colonizing nations on the development of the most developing countries.

His conception centres round the cumulative process, which has already been mentioned, described as the general law of the motion of social systems.[28] The cumulative process—if it is not kept under control—increases the disparities in society and economy. Myrdal attributes this cumulative process, primarily, to the play of the market forces. In his view "the play of the forces in the market normally tends to increase, rather than to decrease, the inequalities between regions." The increase of inequalities can only be compensated by the "spread effect", or by a purposeful State intervention and regulations. It is inevitable, says Myrdal, that in a poor country "the free play of the market forces will work more powerfully to create regional inequalities and to widen those which already exist," since the "spread effect", the centrifugal force of economic expansion is weak.[29]

28. Myrdal is of the opinion that in normal cases there is no such tendency towards automatic self-stabilization in the social system. The system is by itself not moving towards any sort of balance between forces, but is constantly on the move away from such a situation. In the normal case a change does not call forth countervailing changes, but, instead, supporting changes, which move the system in the same direction as the first change but much further. (Gunnar Myrdal, Economic Theory and Under-Developed Regions, Methuen, London, 1957, p. 13.)

29. According to Myrdal the higher the level of economic development that a country has already attained, the stronger the spread effect will usually

"That there is a tendency inherent in the free play of market forces to create regional inequalities, and that this tendency becomes the more dominant the poorer a country is," are two of the most important laws of economic underdevelopment and development under laissez faire.

Unfortunately, Myrdal does not mention concretely which socio-economic system involves the spontaneity of market, which of the systems it is charcteristic of. It seems as if this market spontaneity of the capitalist society would have manifested itself from the very outset in the developing countries (or that it cannot come into force in the developed capitalist countries under "controlled" capitalism). This in our opinion is the weakest point of the analysis, from where it would be easy to return by logical sequences to the interpretation of underdevelopment per se, to a peculiar, new kind of vicious circle.

It seems, that the cumulative process which originates from the free play of market forces and brings about inequalities had manifested itself in all developing countries prior to the penetration of colonialism and foreign capital. Hence, what happens in the individual countries basically in regard to the inequalities at the international level it is just the repetition from the world income distibution point of view.[30] Both underdevelopment and its elimination seem to be natural phenomena: as inequalities come into being within an individual country inevitably and independently from the actual social system, so do inequalities between countries. As in the case of an individual country the inequalities are greater the poorer and less developed the country in question is, the same applies to the entire world. And finally, in the same way as inequalities fade out on a higher level of development in case of one country, will the relative differences of all poor countries of the world shall in the

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be. For a high average level of development is accompanied by improved transportation communication, higher levels of education, and a more dynamic communion of ideas and values—all of which tends to strengthen the forces for the centrifugal spread of economic expansion or to remove the obstacles for its operation (op. cit., p. 34).

30. Myrdal points out: "The discussion...of the problem of regional inequalities within individual countries is relevant to the...analysis of international inequalities..." (op. cit., p. 50). At another place he takes an even more negative stand in the matter: "Basically, the weak spread effects as between countries are thus for the larger part only a reflection of the weak spread effects within the underdeveloped countries themselves caused by their low level of development attained." (op. cit., p. 55).

long run cease. However, if this is true, then it is not the specific laws of the capitalist society of West European countries which by expanding their sphere of action over the world economy have penetrated into the developing countries leaving their mark on the whole economic social development. On the contrary, it is the natural laws existing in the developing countries originally, which have risen to a global level. Thus, underdevelopment should be attributed basically to internal causes and not to external ones related to colonialism.

Fortunately, Myrdal does not follow this logic of thought but interprets correctly although an incorrect generalization of the very specific laws of capitalism, the various factors of that cumulative process which brings about inequalities, and boldly criticizes colonialism by declaring: "A metropolitan country had, of course, an interest in using the dependent country as a market for the products of its own manufacturing industry.... Likewise, the metropolitan country had a clear and obvious interest in procuring primary goods from its dependent territory...thereby exploiting in its own interest local natural resources and indigenous cheap labour....A metropolitan country as far as possible for its own business interest, both as an export and an import market." Myrdal points to two characteristic features of the developing countries of our time.

He points out that the capital and skilled labour a metropolitan country sent to a dependent country tended to form enclaves. These enclaves were isolated from the surrounding economy but tied to the home country. Their economic relations with the indigenous population were restricted to their employment as unskilled labour. Racial and cultural differences, and the very much lower level of wages and modes of living brought about strict segregation even within the enclaves themselves. Myrdal calls attention also to the distortions of the economic and social structure and ascribes the weakness of the "spread effect" and, consequently, the considerable intensity of the cumulative process that increases inequalities, in the last resort to segregation. Thus, he brings these symptoms in connection with those distortions which ensured in the economic and social structure of the developing countries on the effect of the activity of foreign capital during colonialism. "Segregation is one of the main reasons"—declares Myrdal—"why the spread of expansionary momentum was extremely weak or altogether absent."

It is particularly the negative consequences of the trend of world

trade which has attracted the attention of scholars; in this field, the comprehensive and thorough analysis of Pebisch [23] is very useful.[31] In the view of Prebisch one of the main obstacles to the economic growth of the developing countries is their unfavourable situation in international trade. However,—particularly in his Latin-American studies—he points out to the drawing-off of incomes (in the form of profit repatriation, interest payments and redemption of debts), and to the unfavourable socio-economic structure.[32] He ascribes the deterioration of the terms of trade partly to the international division of labour and to the internal structure of the participating countries, and partly to the spontaneous changes in these structures resulting from scientific and technical progress, and the purposeful trade and customs policy of the developed capitalist countries. Prebisch stresses that today's "economic underdevelopment" is closely related to a specific development of world economy, and, therefore, it cannot be explained or solved, either exclusively or primarily, by investigating internal factors. At the same time, Prebisch's conception is a clear-cut answer to all theories which tries to prove the mutually advantageous character of the international division of labour between developing and developed capitalist countries by referring to the theory of "comparative costs."

Lewis [16] is concerned with inequalities in trade between developing and developed countries and explains likewise the specific transfer of income through the foreign trade. He declares: "Practically all the benefit of increasing efficiency in export industries goes to the foreign consumer." In his opinion this is due to the low wage level in the "backward" countries. In developing countries with unlimited supply of labour, the marginal

31. Towards a New Trade Policy for Development, Report by the Secretary General of the United Nations Conference on Trade and Development, U.N., New York, 1964.

32. Prebisch's remarks on a specific mechanism of the drawing-off of income through foreign trade are of great value. He points out that the results of the increase of productivity originally in the export branches of the developing countries are systematically transferred to the developed importer countries. Due to the pressure on the wage level in the export sector, the increase in the productivity brings about extension of production and consequently fall in prices instead of improvement in real wages. (See Prebisch's studies: Essay on the Interpretation of the Process of Economic Development; Dynamic Economic Policy in Latin America; and The Trade Policy of Developing Countries, Economic Commission for Latin America U.N.)

productivity of labour is negligible, zero or even negative, and the price of labour is a wage at the subsistence level. The wage level of the modern (capitalist) sector is determined by what people can earn outside that sector, i.e by incomes—more precisely by the living conditions and state of supply—in the traditional sector. Since the subsistence productivity is low and increase in population high, the low subsistence level exerts a pressure on the wage level of the modern sector. Majority of economists believe, and one is inclined to agree that the developing countries themselves are to be blamed for the transfer of income through foreign trade and that the key to the problem is the low productivity of the traditional sector. However, Lewis points out the historic background when he writes: "The fact that the wage level in the capitalist sector depends upon earnings in the subsistence sector is sometimes of immense political importance, since its effect is that capitalists have a direct interest in holding down the productivity of the subsistence workers....This is one of the worst features of imperialism, for instance. The imperialists invest capital and hire workers; it is to their advantage to keep wages low.... In actual fact the record of every imperial power in Africa in modern times is one of impoverishing the subsistence economy, either by taking away the people's land, or by demanding forced labour in the capitalist sector or by imposing taxes to drive people to work for capitalist employers."

Lewis does not undermine the responsibility of the colonial powers and foreign capitalists for the present situation of foreign trade, and also for some internal economic difficulties of the developing countries. He passes his judgement although he does not give a comprehensive criticism on colonialism.

However, the majority of economists—even if they admit one or another detrimental effect of international forces and external factors on the underdeveloped countries—considers these external factors as secondary ones, and interpret their deleterious influence to the internal conditions prevailing in developing countries. The tracing back of all negative effects to the inner endowments is a typical misinterpretation of the facts.

Concerned with the factors that hinder economic development Viner also mentions the unfavourable situation of foreign trade. However, he disagrees with Prebisch, Lewis and others and denies the general and permanent declining tendency of the terms of trade

of the developing raw material exporting countries. He does not accept the assumption according to which it is industrialization and the change in the export-import pattern, which could solve the problem. Neither does he believe that trade between raw material producing and industrial countries helps the latter to obtain one-sided advantages and that a systematic transfer of income takes place through foreign trade. He admits terms of trade getting worse but considers it a symptom which can be changed and compensated by other favourable factors (e.g. growth of the volume of trade, decrease of the real costs of exports, etc.), and emphasizes rather the fluctuation of raw material prices as a consequence of prosperity and recession. Raw materials generally have a price fluctuation of wider extent than industrial commodities, and reach—if there is a boom—a higher price level and compensate, in Viner's view, the losses of the years of slump.

Referring to comparative advantages, Viner professes that it is the rapid development of agriculture and not the subsidized industrialization which means for agrarian countries a way out of underdevelopment. Their position in world trade is unfavourable not for simply being agrarian countries, but because of the primitive methods their agriculture applies and its resistance to more efficient procedures. Where there is a traditional agriculture, there is often a strong resistance to technical education and to change in working processes.

Thus, Viner considers the unfavourable development in foreign trade and disadvantageous situation in the international division of labour as merely transitional and relative phenomena. In addition he ascribes even the shortcomings to the internal conditions of developing countries (i.e. to those obstacles to growth which have been previously discussed and evaluated, separately or as vicious circles). If over and beyond these unfavourable internal conditions there is any obstacle to a mutually profitable international division of labour, then it is, in Viner's [9] view, "the consequences of the artificial foreign trade barriers for which the developing countries in question are responsible, as well. The Havana Charter, even if ratified, will.. constitute only a modest first step...and the underdeveloped countries must acknowledge their great share of responsibility for its failure to achieve more radical progress in removing the barriers to mutually profitable international division of labour."

Meier and Baldwin too, like Viner, when dealing with the external factors hindering economic development point to the cyclical fluctuation of the terms of trade. According to them "In periods of world prosperity or inflation the prices of primary products rise more rapidly than the prices of manufactured commodities. The terms of trade of most of the poor countries then improve...the foreign exchange proceeds are spent to a large extent on consumption of imports. Furthermore, during these periods when foreign exchange earnings are high, there is usually considerable domestic inflation which leads to malallocation of domestic investment expenditures and serve balance of payments problems....Once inflation occurs, investment funds tend to be diverted to speculative ventures where profits are high....Investment in real estate becomes another favourite venue..., as individuals try to protect themselves from being wiped out by a fall in the purchasing power of money. Still another way to seek protection is to send capital abroad.... Moreover, the rise in domestic prices relative to foreign prices discourages the import-competing industries. And, of course the rise in domestic incomes and prices also cause much of the income to spill over into the import market where the foreign exchange earnings may be quickly dissipated."

They doubtlessly describe a frequently occurring process without mentioning, however, that such a dissipation of the increased incomes and the described inflational process do not ensue necessarily if the economy of a country does not fall prey to foreign monopolies and if a state seriously concerned with the rapid development of the national economy carries on correct economic policy. This goes to say, that though the cyclical fluctuation of the terms of trade is generally an unfavourable phenomenon, its change for the better can only bring about disadvantageous effects if this cyclical fluctuation as a relative hindering factor is combined with the external factor of economic dependence. The improvements of the terms of trade may serve the cause of development even if increased export returns are absorbed by import consumption, for it will mean an increased import of capital goods needed for development, or an increment in foodstuff import, essential for raising the living standard where monocultural economy is dominant.

On the other hand, in periods of depression the world market prices of primary products will fall more rapidly than those of manufactures, and the terms of trade of the poor countries as such

worsen. In addition, the inflow of foreign capital also tends to fall. This deprives poor countries of the fund they need for importing the necessary investment goods.

Among the "international obstacles" that hinder development Meier and Baldwin also point out the detrimental consequences of foreign capital investments. In Meier's view "the need for external borrowing does not mean that the development problem is solely a financial one, solved if only foreign investment is forthcoming." For example, before the First World War several countries have imported considerable amounts of British capital without scarcely reaching any advance. Foreign capital in itself has not been able to bring about development. Its effects are determined by "the direction of the foreign investment, the type of economic organization which accompanied it, and its income effects," says the author, which have been actually critical.

Because of the limited rise in real incomes and the outflow of profits, interests and dividends to the lending country, *a given amount of investment in a developing country generates less income than an equivalent amount of investment would have generated in a less dependendent country.* Foreign capitalist companies hinder development not only by keeping artificially low the wage level and the purchasing prices of products on one hand, and high selling prices on the other, but by transferring larger parts of their profits out of the country, and by so doing retard the expansion of investments and the increase in demand of both consumers and capital goods.

Here again Meier and Baldwin refer to an anonymous vicious circle which leads to reverse conclusions against the one explained in the preceding pages. According to this different vicious circle, here the monopolistic position of foreign capital hinders the increase of real incomes and leads to the expatriation of a considerable part of the national income; and that is why domestic savings do not increase and the home market remains narrow; as a consequence, it is only in the export sector where investments increase, induced by demand from abroad, and owing to lack of indigenous capital investments rely on foreign capital imported from abroad.

The authors give here an excellent analysis on the functioning of foreign capital, and the interrelation they reveal approaches in fact the comprehension of the true causes and the inner mechanism of "economic underdevelopment." Yet they do not interpret under-

development with internal hindering factors and endowments and return to the original conception of vicious circle. They even retouch the earlier outlined negative role of foreign firms by emphasizing what positive effect these firms produce when demonstrating to the native the benefits they can derive from market production, and by adding to these that "many firms have reinvested some of the profit within the country." They conclude their analysis by remarking: "The point being made here is not that foreign enterprise have on balance limited development, but simply that some of the results have been limiting, and that, even though there have been absolute gains, the relative gains might have been greater. Moreover, foreign capital is not even responsible for the "relative losses," because it is the market imperfections as, e.g. the social, geographical immobility of the factors of production, the insufficient knowledge of market relations on the part of the native producers, the rigid social structure, the lack of specialization and consequently the misallocation of resources, which, according to the authors, "have...made it difficult for the full benefits of foreign trade to be diffused throughout the economy. The progress in the export sector has not been able to carry over to the rest of the economy. And to this extent it has been more difficult to break the vicious circles."

Western economics deals sometimes very thoroughly with certain questions of detail and is able to elucidate important interrelations of economic development. However, it comes up against barriers whenever it tries to draw final conclusions and look into fundamental interrelations of causes and results. Yet one may refer to some excellent analysis also, which perhaps is best demonstrated by that as of Myint which already mentioned earlier.

Myint sees clearly that the development problems of developing countries cannot be merely interpreted by the internal factors of vicious circles. Hence, the problems cannot be simply solved in the assumed way of breaking the circle by means of capital import from abroad. In his view the "disequalizing factors" resulting from the process of international trade are functioning, or are related to other external factors (foreign capital, investments, monopolies), and "instead of being neutralized are cumulatively exaggerated" by the spontaneous play of economic forces. Whenever foreign capital has been invested to a larger extent "the result has frequently been too great and rapid an expansion in a few lines of primary production for export which further aggravates the problem of the

adjustment of the indigenous peoples of these countries to outside economic forces.

In order to be able to investigate more closely these "disequalizing factors," Myint [2] devises the abstract model of developing countries. The model bears three main characteristic features: (1) "specialization" for export market (together with a very small degree of real specialization);[33] this results from the development of the plantation system and from the native peasant coming under foreign control; (2) the pyramid-like structure of society; and (3) the monopolistic position of foreign capital. "Each of the characteristic features outlined above," declares Myint, "tends to reduce the relative share of the national incomes of the backward countries accruing to the indigenous peoples."

In Myint's opinion there are also other characteristics which do not figure in his model. For example, "cheap undifferentiated labour with little vertical mobility into more skilled grades," which in addition to the monopsony power of the employers is related to other factors like, (a) high rate of turnover of indigenous labour, (b) official or unofficial colour bar, (c) additional supplies of labour (chiefly due to immigrant labourers). He proves that apart from opposed monopolistic forces, farmers are exposed to disequalizing factors which decrease their share in the national income. "The result of the free play of economic forces under conditions of fluctuating export prices is the well-known story of rural indebtedness, land alienation, and agrarian unrest," states Myint [2, ch. 1].

In such a way Myint makes considerable headway in revealing the harmful effects of the curious "specialization" for exports and existence of intermediary stratum, and the negative role of monopolies that reduce "backward" people to destitution. However, he fails to link these characteristic features, though linking them would reveal the background of objective relations: the colonial, dependent situation. Instead of this Myint [10] ascribes the negative effects of external factors to internal endowments like Meier and Baldwin. In Myint's opinion, specialization of raw

33. . . . in spite of the striking specialization of the inanimate productive equipment and of the individuals from the economically advanced groups of people who manage and control them, there is really very little specialization, beyond a natural adaptability to the tropical climate, among the backward peoples in their roles as unskilled labourers of peasant producers." (op. cit., pp. 119–120).

material production for export market and the lack of manufacturing industry are the results of the limitation of the domestic market, the latter again is due to the fact that the "backward" people are not able to adopt themselves in a satisfactory manner to the new economic environment shaped by outside economic forces. "One of the most important reasons why the backward countries have been prevented from enjoying the stimulating effect of manufacturing industry is not the wickedness of foreign capitalists and their exclusive concern with raw material supplies, but merely the limitation of the domestic market for manufactured articles."

On the one hand, Myint states "the backward peoples have to contend with three types of monopolistic forces; in their role as unskilled labour they have to face the big foreign mining and plantation concerns who are monopolistic buyers of their labour; it is their role as peasant producers that they have to face a small group of exporting and processing firms who are monopolistic buyers of their crop; and in their role as consumers of imported commodities they have to face the same group of firms who are the monopolistic sellers or distributors of these commodities." On the other hand, however, from his interpretation it seems as if the monopolies would not have inflicted themselves on these peoples from outside but if the backward countries would not have lured them into the country. According to Myint monopolistic situations have developed because "the process of opening up a new territory for trade is an extremely risky and costly business, and it is only by offering some sort of monopolistic concessions that foreign business concerns can be induced to accept the risks and the heavy initial costs." Myint makes no mention that the government who "induced" foreign companies to embark on these risky and costly ventures and granted them concessions and privileges were none else but, mostly the local representatives of the same state where the foreign companies are based or puppet governments supported by the same country. In Myint's reasoning, too, the harmful effect of external factors seems to be the consequence of internal shortcoming of economic growth

Turning external negative factors inside out and explaining the latter by inner endowments, is particularly striking when Myint speaks about the objective and subjective aspects of the problem. On the objective side there is the well-known vicious circle of stagnation: low per capita productivity and incomes, while the

external factors appear mainly on the subjective side as causes of discontent and frustration: the backward peoples are converted by them too successfully to new ways of life on the side of wants and aspirations while this cannot be matched by a corresponding increase in their earning capacity. The result is "a progressive maladjustment between wants and activities, the former outstripping the latter at each round of 'education' and contact with the outside world." This gives rise to "the explosive feeling of discontent and grievance against lopsided economic development, foreign economic domination, imperialistic exploitation, and so on." The reason why earning capacity and economic activity of the backward peoples are not growing accordingly is the already mentioned fact that "they cannot successfully adapt themselves to the new economic environment shaped by outside forces." Thus, in the last resort it is not monopolies, the foreign capital, the specialization for export markets, the activities of middlemen, the racial discrimination, etc. which can be held responsible for the present situation of the developing countries, but their own "maladjustment" to the new conditions.

In vain Myint gives a really splendid analysis of some characteristic features of economic underdevelopment, revealing important interrelations, but in the end, he too, arrives at the same conclusion, namely, that underdevelopment is not to be attributed to external causes but to inner factors. He concludes his comments on monopolies by referring to Schumpeter according to whom "the growth of monopoly. . . might actually favour technical innovations and economic development. Monopoly was an essential element in the 'opening-up' process of the backward countries to international trade." Using Galbraith's terminology of "countervailing power," Myint states that "economic backwardness may be described as a phenomenon which arise because the process of 'economic development' has been rapid and the initial conditions too unfavourable to give rise to an effective countervailing power."

It is, therefore, that Myint does not consider foreign monopolies, foreign economic domination and other outside "disequalizing factors" as negative and harmful in themselves, as responsible for the actual situation of the developing countries, but, on the contrary, conceives them as potentially stimulating factors, while he traces back their negative effects and consequences to the lack of adequate countervailing forces. This is a curious logic, indeed.

The conception of Nurkse [17] represents another variant of the tracing back of external factors to internal—partly subjective—ones.[34] Nurkse also acknowledges that the inflow of foreign capital does not break open by all means and in every case the vicious circle. However, the cause of this is not to be sought for in the nature of foreign investments and even still less in the domination of foreign capital or in colonization, but in the specific internal relations. Nurkse flatly denies that the so-called "colonial" type of investment, in mines and plantations producing for export to the industrial creditor countries, was characteristic of nineteenth century foreign investment as a whole. In support of his statement Nurkse clearly draws the line between foreign private capital investments and the investments by public authorities. He declares that only the private business investment has tended "to shy away from industries working for the domestic market in underdeveloped areas and to concentrate instead on primary production for export to the advanced industrial centres." Whereas the greater part of foreign capital has been directed into channels of public investments aiming at building up infrastructure (transport and services).[35]

Thus, Nurkse refutes the general colonial character of foreign investments by setting against each other the two types of capital outlays, i.e. investments which only indirectly serve colonial exploitation by ensuring the preconditions for the latter and the private capital investments in raw material production which directly aim at the exploitation of the colonies.

However, this differentiation is historically unfounded. It is well-known that the colonization of the economy usually began with building up transport facilities (railways), i e. by development

34. Ragner Nurkse, op. cit., and Some International Aspects of the Problem of Economic Development, (The Economics of Underdevelopment, edited by Agarwala and Singh, pp. 256–271).

35. "Even in the heyday of private foreign investment,. . .capital outlays carried on by public authorities by means of private foreign loans were an important form of international investment. Loans to government accounted for 30 percent of Britain's total overseas investments outstanding in 1914, with another 40 percent in railway securities and 5 percent in public utilities. Clearly this does not leave any major proportion for the strictly colonial type of investments—in mines and plantations producing for the creditor countries." (Ibid, p. 206).

of the infrastructure, for this enables to start the production and the transport of raw materials to the "mother country." In this way, public investments developing infrastructure and private capital investments in raw material production complemented each other and, usually it was the infiltration of the monopolies into the economy of a country, which has taken once a direct shape, then again an indirect shape, i.e. through the colonial government. The only difference was that in the latter case it was the taxpayers of the "mother country" and the colony who had to bear the burdens of financing public investments in order to relieve the monopolies from the expense of establishing transport facilities. Thus Nurkse is *not* right when he denies the colonial character of the latter kind of investments.

Regarding the colonial character and harmful consequences of private investments, Nurkse says that the inflowing foreign capital is allocated in the different sectors of the economy in accordance with given economic conditions and not according to some "sinister conspiracy" or "deliberate policy."

He applies the distinction between induced and autonomous investments to international investments. Since the direct investments made by foreign private capital belong to the category of induced investments (i.e. investments which have to be induced by tangible market demand), it is understandable that these investments have concentrated in the export-sector. Here "investment was induced by the investing countries' own demand," writes Nurkse.

However, Nurkse does not say a word about the problem of how these countries came into being or how the activity of the foreign monopolies has preserved these conditions, i.e. narrow domestic market, cheap unskilled labour, low rate of domestic accumulation, etc. Here the debatable point is not the aim or motive of the investors, but the effect of investment from the aspect of economic and social development. Moreover, Nurkse sticks to the so-called colonial type of private capital investments in this case. He does not point out the relationship between economic underdevelopment and the negative consequence of these investments and their distorting effect on the economic structure.

Now, if the "autonomous" public investments, which are independent from market impulses and represent the larger part of investments are, according to Nurkse not of colonial character,

while, on the other hand, private investments are advantageous for the poor countries, and are only erroneously described as being of colonial character, then the only question which remains to be answered is as to why does the inflow of foreign capital fail to break the vicious circle? At this point Nurkse turns the harmful effect of external factors inside out by answering the above question through his conception of the "demonstration effect."[36]

The demonstration effect means that backward peoples get to know through the medium of radio, television, films, aviation, personal relations and other forms of communication the conditions of consumption level of the developed capitalist countries and this is reflected in their consumption propensities.

Nurkse emphasizes that it is not only the absolute but also the relative level of real income that determines the capacity to save. Therefore, it is possible that when real incomes grow in an absolute sense—though they may relatively decrease as compared to developed countries—the level of saving instead of growing decreases because the general propensity to consume grows owing to the demonstration effect. The fact that backward peoples become familiar with the pattern of consumption of developed societies and try to copy it, bringing about the tendency of restricting development funds. This attraction affects not only voluntary personal saving but also makes it politically difficult to use taxation as a means of compulsory saving.

The result of the demonstration effect is the inflationary bias and the persistent tendency towards disequilibrium in the balance of payments. If the differences in levels of living as compared with other peoples are very large and widely known, then these exert an upward pressure on the consumption propensity. In this case and in this sense, the occurrence of the deficit in the balance of payments means that the population "tries to live beyond its means."

Nurkse's analysis of the functioning and consequence of the demonstration effect is a considerable and valuable contribution to the scientific investigation of economic underdevelopment.[37] The

36. This concept was originated by J.S. Duesenberry and is sometimes known as "Duesenberry's Effect" also.

37. It should be added, of course, that Nurkse's scientific results cannot be narrowed down to the investigation of the demonstration effect. Nurkse's conception on "balanced growth" is particularly noteworthy, however, it does not pertain in a strict sense to the subject discussed in this chapter.

demonstration effect should be taken into account in almost every country, the leading stratum of society is induced to run into unproductive expenditure in luxury, particularly where this stratum consists of feudal and semi-feudal elements. And Nurkse's concern for the necessity of domestic efforts, for mobilizing internal potential resources can be considered as a right justification of "self-reliance" policy.

But can backward people really be blamed for their lower level of consumption for their "open" and undeveloped economy, and for the "temptation to copy" the higher consumption pattern of other societies? It inevitably leads to a serious mistake in logical evaluation, if we do not refer to determinant external causes which keep their economy in an underdeveloped and "open" state.

Therefore, the concept of demonstration effect as the interpretation of underdevelopment, even as its partial explanation, cannot be accepted. The role of the developed countries in hindering the development of developing countries is far more than only showing off their high standard of life and consumption and thereby creating exaggerated demands in the society.

Naturally, as to the economic relations between developed and developing countries and the effects of these relations, the fundamental problems are not rooted simply in the negative or positive[38] demonstration effects, nor in one or another direction of foreign capital investments. Moreover, not even exclusively in the deterioration of the terms of trade. The crux of the matter is the international division of labour. The main point is, why the international division of labour developed in such a way that the role of raw material producers and suppliers has been assigned to the developing countries, the former colonies, and how this international division of labour functioned and functions today, and what kind of consequences have been resulting from its functioning.

Even if several economists, particularly those from developing countries, have already become aware of the detrimental consequences and the defective functioning of this division of labour, yet a considerable number of them take it for granted and value the present role of the developing countries in the international division

38. It should be noted that several economists deny the exclusively or chiefly negative nature of the demonstration effect and, arguing with Nurkse, emphasize that demonstration has also a positive stimulating effect for achieving higher production level that gives basis to the higher level of consumption too.

of labour positively, consider it advantageous and indicate its future development accordingly.

Hansen, Chase, Buchanan, Cole and others referring to Ricardo's theory[39] of the comparative advantages and to the requirements of the optimum allocation of the factors of production insist that the present international division of labour has developed on the basis of the natural differences in the costs of production and not as artificial product of colonization. Hence, each country has specialized in the production of those products it can turn out at the lowest comparable cost level. Consequently, this international division of labour as it has taken shape should be considered as optimum and it is not expedient to carry into effect any considerable changes. Foreign trade relations representing this optimum international division of labour are, consequently, advantageous for the developing countries too.[40]

The orthodox Western economists consider the division of labour between raw material producing and industrial countries as a natural consequence of inner circumstances. And if any incidental harmful effects of transitional difficulties arose from this division of labour for the developing countries, then they result from the internal conditions, in their opinion.

There is no one-sided dependence, they say, but only "mutual dependence" arose between the developed and developing countries as a result of this natural division of labour. They deny that any fundamental changes in the pattern of production, that any considerable effort of industrialization would be needed for the rapid

39. In the debate on the problems of international division of labour, arranged by UNESCO in Brussels, in 1960, Western economists, almost without exception, discussed questions of international trade in the light of Ricardo's theory on comparative costs—conceived it in a somewhat more modern conception—and particularly discussions of A.K. Craincross, proved that foreign trade developed on the basis of comparative costs has been advantageous for the underdeveloped countries.

40 Myrdal's opinion considerably differs. He is of the opinion that on the international, as on the national level, trade does not by itself necessarily work for equality. It may, on the contrary, have strong backwash effects on the developing countries. A widening of markets often strengthens in the first instance the rich and progressive countries whose manufacturing industries have the lead. While the developing countries are in continuous danger of seeing even what they have of industry and, in particular, small-scale industry and handicrafts priced out by cheap imports from the industrial countries.

economic development of the developing countries. Both the interests of the developing countries themselves and the principles of the most rational international division of labour require that the former countries continue to be the raw material suppliers of the industrial countries and the stable market for finished manufactured goods produced by the latter. Supported by foreign capital investments the optimum combination and allocation of the factors of production can only be ensured in this way according to these economists.

In their view the flow of foreign capital should continue to develop in accordance with the principles of the optimum international allocation of the factors of production and this mechanism should not be interfered with by any drastic change. This means that in their view foreign capital should further concentrate in the future in the raw material producing export sector of the developing countries, for this suits best the needs of international cooperation – merely because it has been so hitherto.

Even Myint who, as it has been pointed out previously, made considerable headway in revealing the harmful effects of the present international division of labour and of the foreign capital investments on the backward peoples and in analysing, "disequalizing effects" which issues out of international trade, refers to such principles as the "maximization of total world output," "the optimum allocation of the world's resources," when he investigates the question of loans to be granted to developing countries. Myint reaches this conclusion by drawing the line between the underdeveloped resources" and "backward people," as discussed earlier. He confesses that the separation of these principles "results in somewhat unpalatable conclusions," such that even if a better redistribution of income could be achieved on international level, it wouldn't solve the basic problem. However, from his original distinction between "underdeveloped resources" and "backward people", it consequently follows that the same distinction should be made when the question of developing the "underdeveloped resources" and when that of improving the living-standard of "backward peoples" are in question.

From the productivity principle it follows that it is only expedient to grant loans to countries where the "social productivity" of the capital reaches maximum on a world scale. This would mean, first, that in the majority of developing countries, in view of the

present structure, conditions and costs, raw material production should be allowed to continue. Secondly, that it is not expedient to grant loans to all countries for production purposes, for as Myint says: "...the social productivity curves of investment must be considered objectively and independently of our value judgements concerning needs. This means that capital should not be diverted in the form of low interest loans or grants to the poorer countries simply because they are poor."

On the other hand, aids and grants for the improvements of the conditions of the "backward people" should be given on the basis of the principle of needs. Thus in contrast with loans granted in the form of capital goods, it would be better to "distribute them as free gifts of consumers' goods and services."

Such "unpalatable" but logical conclusions induce Myint to point out the unsatisfactoriness of trying to apply the static rules of the productive optimum to the problem of the developing countries, the inadequacy of taking the productivity curves of international investment on the basis of existing economic conditions in the developed and the developing countries and to concentrate on the backwardness of people which is the background of the low level of economic activity and social productivity.

The exact delimitation of the "principle of productivity" and the "principle of need" and the subordination of the capital export and aid policy to these principles may even seem rational from a certain abstract point of view of world economy. Provided that there is a single and integral homogeneous world society together with a system of planned and fair redistribution of world's incomes, it is conceivable that the allocation of capital investments could be rationally separated according to these criteria from other kinds of benefits given in order to satisfy local needs. However, today economic and social processes take place mostly within the framework of national economies (or even still smaller units). And the distribution of economic means and allocations of capital investments cannot always adapt itself even within these units only according to the principle of economic efficiency in the strict sense of the word.

On the other hand, economic efficiency and the so-called comparative advantages are very relative concepts—as it is pointed out by Myint also. It often appears that even the "static" comparative advantages based upon natural endowments cannot be considered static (For example, when unexpected geological discoveries change

the geographical map of natural resources, and when owing to scientific-technical progress and new technological progress hitherto useless resources turn out to be valuable.) This holds good to an even greater extent in respect of the far more important comparative advantages that might be called "dynamic," for they determine efficiency even more, and manifest themselves in the "economic environment," the existence of external economies, and in the level of development of the productive forces. As a matter of fact, "comparative disadvantages" in the processing industries in many developing countries are far more the consequence of their insufficient development and less attributable to their natural endowments.

Though Myint himself declares that the problem of the developing countries cannot be solved through the separation of the "principles of productivity and needs," his conception (independently from his intentions) supports those false theoretical arguments according to which developing countries should continue to be raw material producers depending on industrial countries and their grants, in the years to come also.

This survey of the different interpretations on "economic underdevelopment," though far from being complete, is presented with the aim of highlighting the most important and characteristic conceptions, and while having respect for the excellent exceptions and valuable partial scientific results, it is aimed mainly at concentrating on and arguing with those views which are incorrect, either as in their theoretical foundations or in their final conclusions, and lead to historically deceptive interpretation of "economic underdevelopment."

As a conclusion from the preceding analysis, one can draw the following inference that "economic underdevelopment" does not mean simply a lower level in the evolution of the productive forces or a lag in economic (and social) development, a loss of tempo, nor is it a lower "stage" in the general process of "growth." But it is a complex socio-economic product of a specific development closely interrelated with the development of world economy as such, and determined by the external factors.

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CHAPTER THREE

General Approach to Development Theory

From the analysis of various theoretical interpretations of underdevelopment and development as attempted in the previous chapter, it logically follows that none of the "theories of underdevelopment" or "development" provide an answer to the causes and effects of underdevelopment in the developing countries and least of all suggest any remedy for their speedy development. These theoretical approaches lack in providing historical explanation of the development process and are deficient in any positive step forward in evolving a "general theory" of development, capable of bringing close all the useful ideas and knitting them into a single whole. Most of these theories are partial in their approach. These have been either formulated in a historical background or are the products of imaginations of their authors. Thus, they either lack in practicability or draw heavily on the past economic growth of the nations that are developed today, and thus default in relevance.

In current "development economics," from the general theory point of view, ideas that have dominated for the last one and a quarter century, revolve around three grand streams of economic thought offered by Marx [1], Schumpeter [2] and Keynes [3]. The approach to the problem in literature has come to be categorized as "western" or "socialist", depending on whether it developed in the western or eastern hemisphere of the world. Thus, by analysing the ideas of the very giants of economic theory we may be able to compose a basic train of thought on certain main issues of economic development that haunt the developing countries today.

The Western economic theory has tried to deal systematically with the problems of economic growth, right from the early twentieth century. Moreover, it has primarily concentrated on the causes and consequences of unstable growth of capitalist society and the occurrence of business cycles. It had searched for the methods of

controlling the limits of "boom" and "depression" with the idea of ensuring a "sustained growth" of output and employment. In this context, the writings of Schumpeter and Keynes are worth mentioning and commendable. Nevertheless, works of other economists like Robbins [4], Haberler [5], Hawtrey and others too cannot be ignored [1]

As far as Schumpeter and Keynes are concerned, both have lived under the shadow of Marx and the socialist thought of the late nineteenth century. Whereas Schumpeter was intellectually indebted to Marx and admired his analysis of development, Keynes has just made passing references to his writings.

Schumpeter appreciated the functioning of capitalist system of production, but at the same time shared the pessimism of Marx on the future of capitalist system. He begins his theory of economic development[2] with the analysis of an economy in stationary equilibrium characterized by a circular flow. The essence of development according to him lies in the discontinuous disturbance of this circular flow,[3] which comes in the form of an innovation entailing the construction of new plant and equipment, and rise in the business leadership of "new men".

According to him, once the innovator has demonstrated the profitability of his venture, followers will enter the field. The "big innovators" shall generate a "huge wave of new investments through its direct and indirect effects on the economy." He, like other analysts of business cycles, assumes that new investments are

1. The constant recurrence of booms and slumps seems to this group of economists an indication that some permanent influence, itself subject to a necessary rhythm of expansion and contraction, determines the ups and downs of economic development, and they devote all their energies to discovering it. Robbins, Hawtrey, Aftalion, Schumpeter, Spiethoff, Cassel, Tugan-Baranowski, and Keynes have studied the issue at great length.

2. Some, however, dispute Schumpeter's claim to have offered a theory of economic development, but credit him for his brilliant analysis and insight of the development process. Most of the writers seem to agree that he did offer "a theory of business cycles".

3. "Development in our sense is a distinct phenomenon, entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium. It is spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing. Our theory of development is nothing but a treatment of this phenomenon and the processes incident to it." (The Theory of Economic Development, Oxford University Press, 1974, p. 64.)

financed by monetary expansion, and that economic fluctuations depend upon the "swarming" of innovators in "clusters" in the early stages of upswing of the cycles when the economy is close to an equilibrium position. Although this feature of his theory has frequently been criticized, still his analysis of innovations is perhaps the best explanation of the state of boom of economic activity.

Schumpeter's contribution to the theory of development lies in his systematic exposition of the Marxian thesis that capitalist development tends to proceed by fits and starts rather than by a steady and smooth progression.

Schumpeter's theory is in fact a contribution to the analysis of business cycles, rather than to the theory of economic development. Nonetheless, his interpretation of economic development through "the circular flow of economic life as conditioned by given circumstances" and the "fundamental phenomenon of economic development" remain yet to be refuted.[4] From the developing countries point of view, his analysis as is claimed by Onyemelukwe [6] contains two basic ideas. First, Schumpeter defined development as "only such change in economic life as are not forced upon it from without, but arises by its own initiative from within." Secondly his stress on the role of entrepreneur. Onyemelukwe stresses that Schumpeter was not "impressed by mere economic growth indicated by such factors as recorded growth of output and income,...[He] saw development as a process generated within a society by forces propogated and invigorated by the actual members of that society. True development cannot be started or sustained by outsiders. Schumpeter laid particular stress on what he called 'innovation'... and regarded as the main spring of what he called autonomous investment. It thus appears that he would insist that innovations must arise from initiative from within." Onyemelukwe further adds, "Schumpeter..., is the man who sees the opportunity of

4. "By development, therefore, we shall understand only such changes in economic life as are not forced upon it from without but arise by its own initiative, from within. Should it turn out that there are no such changes arising in the economic sphere itself..., then we should say that there is no economic development..., the causes and hence the explanations of the development must be sought outside the group of facts which are described by economic theory." (J.A. Schumpeter, The Theory of Economic Development, Oxford University Press, 1974, p. 63.)

utilizing a new technique or a new commodity, and improved organization. He then takes steps to see a practical implementation of new ideas. These two ideas of Schumpeter must be read together."

While criticizing Schumpeter, he points out that like many others before and after him, "Schumpeter erred in the way he looked at the relationship between social structure and economic development. In his concept of social climate he felt that the growth of entrepreneurship could not take place unless the social, political, and socio-psychological atmosphere was right. Granted that actions of governments can inhibit entrepreneurship by their political and economic policies, we do not, however, agree that outside such actions there are any intrinsic or traditional social and psychological factors that inhibit entrepreneurship. Rather the problem should be how to choose the right stimulus that can evoke response from each socio-cultural context and it is in this respect that Schumpeter missed the point in putting so much weight on entrepreneurship as if it is something which is traditionally either there or not there in any given society."[5]

Although, the general theory of Keynes is basically treated as static,[6] but his real contribution to Western economics is in the fact that he shifted the attention from the Marshallian short-term and micro equilibrium to long-term equilibrium of the national economy. His writings revolutionized the entire trend in economics and as a result of his work a number of valuable theses came up with the pretension of serving as the basis for a general theory of the growth and development in developed as well as in developing countries.

Keynes' "General Theory" has made a definite departure from the classical economic theory of laissez faire. To Keynes the mechanism of price determination did not interest so much as did the production activity and its stimulants which would ensure the attainment of the level of full employment. The central question of his analysis remains, however, that of the marginal efficiency of capital. He presumes that "the scale of investment depends on the relation between the rate of interest and the schedule of marginal efficiency of capital, corresponding to the different scales of current

5. See C.C. Onyemelukwe, Economic Underdevelopment—An Inside View, Longman, London, 1974, p. 2.

6. As Schumpeter calls it in History of Economic Analysis, Oxford University Press, London, 1954.

investment, while the marginal efficiency of capital depends on the relation between the supply price of capital assets and its prospective yield."[7]

Keynes is of the opinion that the automatic functioning of the market forces on the basis of private initiative, cannot restore such conditions that could ensure the level of full employment. He, therefore, advocates increased role of the State in stepping up of the economic activity in general, and investments in particular. In his opinion, "In some other respects the foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly perhaps in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialization can be introduced gradually and without a break in the general traditions of society."[8]

Keynesian theory has played an important role in the post-war development of capitalist economic system in Britain, and the United States. His theory has been elaborated further, and support-

7. J.M. Keynes, The General Theory of Employment, Interest, and Money, Macmillan, London, 1973, p. 147.

8. Ibid., pp. 377–378.

ed by many economists.[9] Attempts have been made to construct a theory of development out of his general theory.[10] It is argued at times that Keynes adopted similar methods of economic analysis as did Marx, and like him he studied the same old economic problem of average rate of profit. However, there are fundamental differences in motives of the two which is based on the class interests of the society, in the two approaches.

Keynesian theory has lately been under severe fire from different quarters. The attack has been launched by Clower [7] and Leijonhufvud [8]. Some of the critics of Keynes like Hine [9] feel that "Keynes would have been well advised not to have written the General Theory at all. He should have written a note in the Economic Journal (or perhaps more appropriately written a letter to "The Times") making the rather obvious observation(s)." He further adds that "as for a consensus regarding the real contributions of Keynes among the majority prevails that he failed to have produced a general theory of value and money," against what is claimed by Keynes. The critics say that Keynes took "the then current model, and had arbitrarily imposed certain restrictions upon it—converting certain functions into constants, setting certain price elasticities equal to infinity or to zero—and then had claimed not only to have refuted the classical model but also to have provided a more general theory....This is precisely what Keynes has failed to do."[11]

In spite of the valid criticism levelled against Keynes, his contribution to the theory of development remains undisputed. He is among the first to deny the Say's Law, and like Marx refutes the notion of "invisible hand" in establishing the market equilibrium. Keynes recommended active role of the State, in regulation of total consumption, savings and investment for attaining a higher level of employment in the economy. He refuses to accept the imminence of capitalist crises of production, as professed by Marx. By a series of monetary and fiscal measures of economic policy he

9. Among most important of his supporters one may mention a few, who made various clarifications and extensions to his theory subsequently, like Hicks, Meade, Harrod (in England), Klein Modigliani, Lange, and Hansen (in USA).

10. See, for example, K.K. Kuriharas, The Keynesian Theory of Economic Development, Allen & Unwin, London, 1959.

11. A.G. Hine, On the Reappraisal of Keynesian Economics, Martin Robertson & Co., London, 1972, p. 7.

intends to ride the tide, and keep the capitalist economic growth moving up onwards. He does, however, accept that cyclical fluctuations in capitalist system, if left to themselves, could lead to crises of capitalism.

It is in this respect that some of the Western economists like Sherman [10] talk of the theory of cyclical growth of capitalist economy.[12] Nevertheless, such theories have been under deep influence of Marxist prophecy of doom of the capitalist system. Similarly, some of the neo-classical theories of growth proposing balanced growth[13] incorporate some of the Marxist ideas.

As such Keynesian theory in context of the developing countries is of limited value. For example, it explains the phenomenon of unemployment of labour in terms of deficiency of effective demand, which hardly could be a case in countries like China or India. If at all the theory could be useful from practical point of view, it is only for the developed market economies of the West.

Perhaps, the utility of Keynesian theory is best illustrated in Schumpeter's remark: "practical Keynesianism is a seedling which cannot be transplanted into foreign soil, it dies and becomes poisonous before it dies...left in English soil, this seedling is a healthy thing and promises both fruit and shade."

The Western economic theory during the 1930s has seen a revival of interest in "general equilibrium" theory of Walras and Pereto. Hicks [11] critically reappraised the theory and was followed by Lange [12] and Samuelson [13]. The general equilibrium system attempted to interpret all the essential features of real-life economies of demand and supply by using sophisticated mathematical techniques. The theory of economic equilibrium had the task to determine and to solve the puzzle of scarce resources and economically producing the goods. Von Neumann [14] saw the problem of equilibrium of the economic system by shifting the attention from the static state over to the time period such that the production is conceived as a circular process. He reduced the economic system to a collection of production processes transforming goods inherited from the past into others, according to technological laws. Von Neumann model

12. See H.J. Sherman, Macrodynamic Economics—Growth, Employment and Prices, Appleton Century Crofts, New York, 1964.

13. For example, refer to J. Meade, A Neo-Classical Theory of Economic Growth, Unwin University Books, London, 1965.

is just an extension of Walras model. The general equilibrium problem was seen differently by V. Leontief [15]. He concerned himself with the consequences of changes in the level of production in one sector or the other, and the total and intermediate demand for goods from various sectors of the economy. In his inter-industrial transaction approach (as presented in his dynamic model in 1953) he made use of the linear programming technique to solve the problem of choice by finding minimum and maximum value of a linear function.

The real impact of Keynesian revolution in economic theory is perhaps best illustrated in the post war influx of theories of steady growth of industrial economies. Much of the literature on growth theories is highly technical in nature and presented in mathematical form. The earliest contributions to growth theories have been made by Harrod [16] and Domar [17]. The main emphasis of Harrod's approach is on the Keynesian variables, i.e. consumption, investment and output, and the purpose of his system is on the determination of effects of relation of saving, consumption and investment on the growth of output. Domar's approach differs from that of Harrod's in that the stock of capital and the technological laws governing production are not explicitly mentioned. The focus is, instead, on the dual role of investment. Domar's concern is the problem of finding the conditions under which the effect of investment on productive capacity is exactly equal to its effect on aggregate demand.

The inherent stability of Harrod-Domar model is reflected in their use of constant rates of the data. Most of the research that followed, including that of Mahalanobis [18], consists in interpretation of the data as economic variables. However, Solow [19], concentrates on construction of a model of the economy which differs from Harrod's only in that the range of techniques available allow capital and labour to be readily substituted for each other in producing composite commodities.

Similarly, the post-war "aggregate production function" approach is the neo-classical presentation of growth phenomenon in terms of aggregate output in relation to aggregate capital and labour. This approach has been criticized by Kaldor [20], Pasinetti [21] and Joan Robinson [22]. Kaldor's model of growth is an "illustration of the alternative growth mechanism" turning "upside down the order of causation of neo-classical model." The further extension of Kaldor model is his own collaboration with Mirrlees, which differs

from his earlier approach in the treatment of technical progress as mainly embodied in new machine and equipment, thus capital goods of different periods are not treated as homogeneous and aggregate capital becomes a doubtful concept.

In spite of the shortcomings, the neo-classical growth theory has provided almost the sole logical basis for the theory of long term economic policy during the last few decades. The policy of rate of growth of output by governmental control of consumption and investment through fiscal and monetary measures, has proved fairly successful in capitalist economies of the West. Tobin [23] has developed a dynamic model of the economy with a government and money in it to evaluate the long term effects of government intervention.

Thus, we can see the great impact of Keynes on the postwar development of economic theory in general and on the problem of economic growth in particular. This systematic approach to the problem of growth of output, and related factors, i.e. consumption, investment and the issue of equilibrium, did influence the economic thought on underdevelopment problems, giving rise to various theories, that we have already discussed in detail.

On the other hand, the Marxian political economy forms the basis of socialist approach to economic development. Marx's theory, in essence, is the theory of development of the society, and the basic characteristics of his theoretical analysis lies in its historical approach to the "socio-economic relations" that continuously change during the course of growth of "material forces of production" (means of production). In this particular sense, the Marxian interpretation is dynamic, long-term and general.

Lenin is the last one among the Marxists to analyse in detail the growth of capitalist society. Only sporadic attempts have been made to analyse the basic problems of modern economic growth in capitalist countries. These have invariably ended in either verification or confrontation of Marx's views with the western theoretical explanations. The conservative interpretation of Marxian political economy of the capitalist system has played an important role in the development of economic theory of socialism in general and social development theory in particular.

There hardly exists a general theory of development as presented in the socialist economic thought. It is only in the writings of Marx-Engels and Lenin, that some basic guidelines for the analysis of

development process could be traced back. Moreover, attempts have been made in the Soviet Union to formulate a theory of socialist development. After the October Revolution in 1917, the subject had occupied many Soviet economists, notably Buharin [24] and Preobrazhensky [25], during the "New Economic Policy" days. One of the interpretations of socialist economic development is based on the existence of a specific situation of the Soviet Union (i.e. a low level of utilization of available means of production, and the isolation from the international market). This theory as developed by Preobrazhensky dealt with the problem of Socialist accumulation. He maintained that the relatively small and weak economic sector could not possibly bear the whole burden of investment. Hence, resources must be obtained from peasant sector. To achieve this, price charged for industrial products from the peasants will have to be higher than normal. This form of non-equal exchange would be a necessary substitute in Soviet conditions, for what Marx called "primitive capitalist accumulation". Preobrazhensky argued that since the socialist State could not indulge in various forms of capitalist accumulation, there would have to be some form of "primitive socialist accumulation", if industrialization is ever to be undertaken.[14]

This very concept was later developed along the Marxian lines into the "theory of socialist industrialization," i.e. of growth of Department I (capital goods) at the expense of Department II (consumer goods). This was considered as the only pattern of development of means of production under socialism.

During the first plan period in Soviet Union, there were further attempts made to formulate a general theory of development of socialist economies. These involved primarily an elaboration of the Marxian theory of reproduction under specific conditions. Attempts were made by highlighting the development of socialist economy into the post revolutionary stage of "reconstruction"

14. This doctrine evoked wide criticism and spread discontent in the USSR. Preobrazhensky was criticized by his fellow colleagues including his friend Buharin. He was accused by official circles of peasant exploitation and advocation of internal colonialism, thus threatening the economy and political stability of the Soviet State. After two expulsions and re-admittance to the party, he was finally executed in Stalin's purges during 1937. Later, however, this "primitive socialist accumulation" policy was pursued by Stalin through ruthless methods.

against the period of "normal growth". The form implied a change in the inherited economic structure of the society with a parallel growth of capital formation in the economy, which normally would imply that in later stages the emphasis will have to be on balanced growth of the economy with priority on the production of consumer goods.[15] Nevertheless, such and similar other conceptions were officially declared in Soviet Union as anti-socialist or revisionist and a deviation from Marxism-Leninism.

It is only in the last quarter century or so that in socialist countries some serious researches have been carried out in the field of development economics. Up to the mid-1950's most socialist countries followed the Soviet model of economic growth as designed by Stalin's autocratic regime. It was considered that the Soviet model of economic growth is the only and natural growth pattern under socialism. The remarkable revival of economic thought that followed 1956, undermined the former orthodoxy. The economic reforms carried out in East European countries and the Soviet Union itself, during the last two decades, resulted in liberalization of centralistic planning, greater freedom to enterprises, profit of the enterprises as the criteria of economic performance, monetary incentives and price reforms. Till Stalin's death the political economy of socialism denied the existence of basic economic laws. Most writers upto 1954 only restated Marx in order to provide "apologistic justification of current economic policies." The new era of rejuvenation of economics has stimulated extensive use of mathematics in development economics. Growth models and other contributions were made by economists like Kantorovich [26] and Novozilov [27].

Particular aspects of economic growth have been studied at length in Poland, Czechoslovakia, Hungary and Yugoslavia, with a definite objective of discovering a sound theoretical basis for various patterns of development and the consequent economic policy.[16]

From a general theory point of view, an investigation into the

15. Refer to the writings of Soviet economists, like Feldman, Kondratiev, Bazarov and others, published during 1925-1930. These have been reprinted in the US by N. Spulber (editor) in, Foundations of Soviet Strategy for Economic Growth—Selected Soviet Essays 1924-1930, Indiana University Press, Bloomington, 1964.

16. East European economists have devoted a great deal of effort to study

causes and consequences of development process could be based on Marxist interpretation of historical changes in social systems. The analysis could be subjected by rightly interpreting and studying the stages of development, the role of theory of value in growth process, and the ultimate goals of economic development.

The Marxian analysis of the stages of development of society provides a thorough study into the conditions of economic progress through the ages. He also presents a vision of socialist and communist stages of development of society. In the writings of Marx-Engels and Lenin we come across the description of conditions that led to the transition of a traditional society to capitalist one and to the rise of colonialism and the corresponding modes of production. The theory of State, and functioning of basic economic laws under the socialist system of Soviet Union have run counter to the very essence of socialism. Experiences in Yugoslav system have pointed out to the negative consequences of the bureaucracy and deformative role of the State in the socio-economic development process and thus emphasized the need of alternative system of development.

The theoretical problems of modern economic systems, in essence, mostly pertains to the functioning of the theory of value. Originally devised by Ricardo and later perfected by Marx, as seen under socialism, it is the socialist doctrine of pricing. Throughout the classical theory it has been the centre piece of economic theory. The theory of value, according to Marx, applies to all the modes of production, right from the earliest forms of civilization to the final stage of communism. According to him,

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the problems of economic growth under socialism from different points of view.

In Poland Oscar Lange, M. Kalecki, Pajestka and others have studied various issues of theory of value under planned mechanism. They took interest in the problems of expanded reproduction, rate of growth, efficiency of investment, acceleration of long term growth, etc. Czechoslovak economist particularly O. Sik elaborated the problems of plan and market under socialism. O. Kyn dealt with the problem of price determination, and Josef Goldman evolved a model of economic growth under socialism. Hungarian economists J. Kornai and T. Liptak have worked on resources allocation problem and the Hungarian growth model. In Yugoslavia, Sirotkovic, Kidric and M. Korac have worked on constructing the analytical apparatus of self-management economic system.

while it applied through value price in early stages of capitalism, it performed the basic economic functions in the form of production price in such a way that the incentive behind was always the maximization of private profit by the capitalist or the owner of means of production.

Such an analysis of system of prices and value is helpful in understanding the process of development and thereby the methods and instruments of directing social changes.[17]

Measures of directing social processes, i.e. the socio-economic policy and its impact on the production process, at a certain stage of development necessarily conforms to the interest of the producers, be it capitalist, socialist or of any other type. Thus the motive force or incentive could under such system either be private profit, profit of the enterprises or the accumulation of the State. In any case it represents the surplus value, i.e. additional income over the cost of production. The understanding of the law of value, its functioning under various economic systems at different stages of development, is useful in the shaping of economic decisions of the producers and consumers in the society. Naturally, such decisions are part and parcel of economic policy.

Marx in his analysis of the process of reproduction has primarily dealt with the material factors of production of stable and balanced economic growth. The main point of the analysis is the causal relationship between each component of material and value structure of production, as a precondition for continued accumulation of capital and thus of growth of output.[18]

Marx has constantly pointed out at the future possibility of transition of capitalist society into a socialist one, and has expressed

17. The law of value was officially denied in the Soviet Union till 1941 and treated as a characteristics of capitalist society. The Soviet version of the theory is best reflected in the following quotation from official idealogical journal: "the law of value reflects the most effective ways and means for the development of socialist production and the achievement of the greatest possible effects with the lowest possible outlays" (A. Birman, Kommunist, Moscow, 10/1967, p. 106). It was only in the 1960's that economists like Liberman advocated for it. Liberman considers that only "all embracing criterion that could ensure the growth, stability, quality and efficiency of production is the maximization of profit" of the enterprises owned by the state.

18. The concept of value and material structure refers to Marx's model of Department I, i.e. of Machine goods and Wage goods; and the Department II

explicitly the need of "social and planned control" of the process of reproduction in accordance with the need of the society. The "general law of social process of reproduction" through which he has illustrated the possibility of a stable and balanced growth primarily refers to the socialist system, where due to the emergence of "new production relations" in the process of production according to the envisaged plan, based on the needs of the people, the society will not have any more the anarchy of production, which is characteristic of the capitalist system.

Marxist theory, in general terms, treats economic development under socialism as stable and proportional (balanced). This is explicit from Marx's theoretical model. It must, however, be mentioned that Marx could not have gone into matters of detail, for socialism as a system did not exist during his time. He only referred to the possible forms of economic trends at a developed stage of socialism. Moreover, the post-war experience in socialist economic growth in the East European countries did not conform to the basic postulated model, and they did experience the cyclical fluctuations in production activity. The theorists have tried to explain this phenomenon of unproportional growth by inventing the theory of "investment cycles" as probable cause for instability of the system. Nevertheless, it must be reiterated that Marx did not proclaim that the actual behaviour of socialist society may not differ from the general model.

MODERN SOCIALIST ECONOMICS AND YUGOSLAV CONTRIBUTION TO THEORY

As stated earlier, the death of Stalin marks the beginning of a new era in the development of economic thought. The emergence of new ideas and the economic reforms in socialist countries have given birth to the so called "new socialist economics."[19] Polish

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i.e. Consumer goods. The relation $C+V+M=Y$ refers to constant capital, variable capital, and surplus value constituting the total output. In each department it is split into these very components constituting the output of each.

From the point of making economic decisions in the system it is the relationship between each component within the department itself and in between the departments.

19. The term "new socialist economics" has been coined by J. Wilczynski

economists such as Lange [12], Kalecki [28] and others, launched the attack on traditional theory and were joined by Yugoslav economists and political theorists like Sirotkovic [29], Kardelj [30] and Bakaric [31]. The upsurge in theory was supported by the practical changes in the economic system of Yugoslavia, and its growth performance compared to other eastern neighbours as well as many western economies and have led economists to study the implications of a new socio-economic system based on the social self-management of the society.

The theoretical and practical deviations from the traditional and conservative Marxist approach have been resented upon and criticized in the Soviet union and its allied countries. But the positive results have led to major changes in economic thought and policy of the Soviet Union itself.

Contributions of Yugoslav economists to the theory of economic development of socialist society have been far reaching. The Yugoslav road to socialism independent from Moscow, under the vital leadership of the late President Tito[20] has changed the entire conception of transition of a capitalist society into a socialist system based on social ownership (as different from the ownership of the State) and social self-management by the working people. This is an entirely new approach of a socialist society, based on Marxian principles and experiences of the Paris Commune of 1871,

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and refers to the changes in the theoretical approach to economics, in the centrally planned economies of East Europe. It should, however, not be confused by the earlier term "new economics" referred to by Preobrazhensky. Both these should not in any case be mixed up with our "modern socialist economics," which tries to explain certain current trends in socialist economic theory. In context of Yugoslavia, the use of the term be treated in the sense of original approach to socialist economic development.

20. The legendry figure of Josip Broz Tito has dominated not only the Yugoslav but international political scene for more than 50 years. Although in the domestic field his contributions were primarily of socio-political character, but his vision of the economic system has provided the foundations for the development of an adequate theoretical structure of the development theory of Yugoslav socialism. In the international field his contribution to the non-aligned movement as the founding member of the club, his support for independence of the developing countries, non-interference in internal affairs of other countries are some of the basic thoughts which he stood for. After his death in 1980, a review of his collected essays and speeches has appeared in Yugoslavia. It gives an insight into his theoretical approach to the problem of socio-economic development.

and has aimed at gradual reduction of the role of the State in economic and social spheres, direct decision making by the workers as the producers of goods and services, distribution of earned incomes according to the results of individual economic performance, keeping in mind the basic needs of the people with an exclusive aim of "constant increase in the level of standards of living of the Yugoslav people." The economic performance and socio-political freedom that Yugoslavia cherished for the last thirty years has been a subject of great envy and interest throughout the world. The practical experiences in the functioning of self-management economy has provided laboratory treatment to certain basic principles of an entirely new development theory of socialism. From such system in practice we can draw some basic inferences.

Reputed Yugoslav economic theorist, planner and policy-maker Sirotkovic considers that any investigation into a general theory of development, and Yugoslav concept in particular must be based on the analysis of economic structure of the society, its economic system, and the consequent economic policy as these contain all the basic elements needed for any theoretical approach to the problem of economic development.

In Yugoslavia, the establishment of a socialist system after the II World War, which enabled the process of socialization of means of production and gradual reduction in the role of State has proved that a system could be evolved which could conform to the basic ideas of Marxism, and yet be different from the traditional model of socialism. The system was based on the conception of social ownership and self-management by the workers, and led to the emergence of a system that checks the deformative bureaucratic character of the state, facilitates the liquidation of exploitation, and the application of the principle of remuneration according to work performed.

On this very basis a new socio-economic structure of the society could be and has been built in Yugoslavia, thus enabling the creation of a new "legal and political structure" that ensures the basic conditions of economic development and of a consistent economic policy. Instead of a subjective approach to the goals of socialist development and corresponding policy to attain such goals (as was the case in the Soviet Union till 1954), the Yugoslav system envisages an active role for the working people through self-management system adhering to the basic interests of the society, i.e.

ensuring a better standard of material and cultural needs for the people, by creating favourable conditions of economic development through the economic system.

The transformatory process of Yugoslav society is under way. So far it has succeeded in establishing a consistent system of economic incentives that run the production process at a higher pace paving way to a higher standard of living of the people.

Such a theoretical interpretation of Marxian theory of the stages of development, in view of the parallel existence of the Soviet model, has a very special significance both in theory and practice. It has, on the one hand, given rise to the conception of alternative approach to socialism and, on the other proved that such a system, as is devised in Yugoslavia, can function with success. This fact is of a certain significance to the developing countries in their search for "independent roads" to development.

The Marxian theory of reproduction, which has served the theoretical system of approach of the Yugoslav model of economic development, has been elaborated in detail and adapted to the Yugoslav conditions by Sirotkovic [29] and Mikic [32]. The analysis of the "material" and "value" structure of the Yugoslav economy has provided the fundamental basis for evolving consistent economic policy of planned social and economic development based on "coherent conciliation of social interests" through "social contracts" between the self-managed enterprises having varied social and economic interests. The Yugoslav approach of decentralized planning based on economic incentive of income ("dohodak"—a purely new economic category based on Marxian interpretation of newly created value and thus of surplus value) of the working people, has succeeded in social direction of production process in such a way that the standard of living of the people has constantly increased.[21]

From theoretical point of view the analysis of the functioning of the law of value, under the conditions of system of self-management, has special significance. Economic researches have proved that the self managed economic system and the pricing system under it,

21. The glaring evidence of the success of the economic system is the very fact that during the post war year the Yugoslav economy has recorded an exceptionally high rate of sustained growth of output of 6.5% per year. The national income per head which has been estimated at $153 in real terms in 1950 stands at $ 3350 in 1980 (at 1970 ICP $). Refer to authors own study, Strategija razvoja zemalja u razvoju, Economics Faculty Zagreb, 1980.

functions through the systems of "income prices" and "rate of income", i.e. the "income motive".[22] The emergence of this new concept of theory of value under conditions of self-management has been significant in the search of an adequate theoretical framework of the economic system and thereby in pursuance of a consistent policy of economic development.

The Marxian thesis of "stable and proportional" growth of output, in Yugoslav context, has been verified and it has been observed that instability and unproportionalities do exist,[23] due to an insufficient degree of harmonization of economic . nd social interests of all the subjects—economic and political. It has been repeatedly confirmed by theorists that a continuous process of effective "indicative" social planning as is envisaged in the social plans of Yugoslavia, could facilitate a sustained growth of output and standard of living of the people.

GENERAL THEORETICAL APPROACH AND THE DEVELOPING COUNTRIES

As it could be seen from the earlier discussion, it seems that the various general approaches, although conceal a great deal of truth, fail to visualize the real situation in the developing countries (to which we shall refer in the succeeding chapters). At the same time,

22. There exist two different theoretical interpretations of socialist pricing system under conditions of social self-management. The one that has won the official and scientific recognition is offered by M. Korac, J. Siıotkovic and others, who consider that the fundamental basis of functioning of the entire system is the "newly created income" (dohodak) and the law of value under this system functions through "income prices" based on the "rate of income" ("dohodna ci jena" and "dohodna stopa" respectively). The rate of income has been defined as a relationship of "newly created income" and "used resources" or capital plus "newly added labour" ($d = D/\ sp{+}nv$). The alternative approach is offered by Z. P janic, I Maksimovic, A Bajt and others. This group of economists also accept that the basis of self-management system is "dohodak", but the law of value operates through "specific production price" ("specificna cije.ıa proizvodnje") based on the "cost of production". For details of the two concepts see the original works of the authors, i.e. M. Korac et al , Problemi teorjei prakse socijalisticke robne proizvodnje u Jugoslavi ji, Informator, Zagreb 1965; and Z. Pjanic et al., Koncepcija i verifikacija specificne cene proizvodnje u jugoslavensko j privredi 1964 i 1966, Beograd, 1968.

23. See B. Horvat's study, Privredni ciklusi u Jugoslavi ji, Beograd, 1965.

most of these partial interpretations referred to earlier, in their bid to frame a general theory of development for the developing countries, intend to explain the causes and consequences of development and underdevelopment by only simplifying the problem of development rather too much.

We have already emphasized that it is not essential to construct any "special theory" of development "for the developing countries". What we really need is the deeper insight into the existing conditions of economic progress in the developing countries, their problems and the possibilities for their solution. In doing so, we do need an appropriate theoretical guideline which could be moulded according to the needs of most of the developing countries. Such a theoretical ground could be constructed only if we try to assimilate the positive ideas from both western and socialist development approaches.

In our opinion any general approach to the theory of development must elaborate the role of basic factors of growth (development), the main incentive as the motive force of production, and the ultimate goals of the development process. The approaches discussed earlier (Schumpeter, Keynes and Marxian), deal with these theoretical the questions at length, but in context of the developed countries alone. Our task is to synthesize the basic points and to relate to the existing conditions of developing countries.

The Western theories approach the problem of the factors of production or growth with the intention of justifying the existence of maximization of private profit by sustaining the growth of capitalist system. It basically aims at increasing the volume of goods and services without allowing for any change in the social structure of production. Since most of the developing countries still maintain a feudal-capitalistic structure of production, for most of them it is not sufficient to raise the level of production of material goods and services only, but it is also important to change the social structure. Thus, it is not easy to accept an exclusive reliance on just finding out the ways and means of increasing the material production—as the theories do suggest at times. It is not surprising at all that the theoretical approaches of the 1950's (Lewis, Nurkse, Fei and Ranis, etc.) suggesting the attainment of high rates of growth in developing countries (5 to 8 percent annually) had to be transformed into "employment oriented" approach in the 1960's, and that of "basic needs" in the 1970's. The theoretical approaches of

seventies[24] intend to reduce "mass poverty" and to attain a better distribution of income and wealth, rather than just to record high rates of growth.

It is under the influence of Keynes and his followers and their theories of State intervention for a balanced growth, that many economists (Frankel, Myrdal, Myint) have become increasingly aware of the fact that the traditional capitalist theory of development could not be just mechanically applied to the prevailing conditions of development in the developing countries, and social factors or "social process" (as Schumpeter calls it) must be taken into account. Marxian approach in this respect remains far more complete and dynamic with a possibility of further adaptation to the concrete conditions existing in the developing world. It could provide a starting base for a general approach. While the classical theory maintains that the land, labour and capital are the basic factors of production, and thus of growth, Marx takes a different view. In his opinion it is the "structure of the society as a totality of production relations (social factors) and the material forces of production (material factors), i.e. the overall conditions of production.

This structure contains "all the determinants of economic development."[25] In this sense, in order to attain the goal of balanced and stable economic growth, which could be a programmed aim of the developing countries, an analysis of the "natural laws of value structure of production" for the sake of a continuous process of "capital formation" leading to "expanded reproduction", is a must.

In the case of the developing countries, the application of Marxian concept of growth shall require changes in the "social structure" of production along with the changes in "material structure". In other words, it would mean that in order to increase the level of output of goods and services, the developing countries will have to go through some "institutional changes" either of evolutionary type (as Schumpeter assumes) or the revolutionary ones (to which

24. Refer to various works published during 1970–1980. Some of these could be cited here. For example, The Declaration of Cocoyoc, 1947; What Now—Another Development, Dag Hammarskjold Foundation Report, 1975; Catastrophe or New Society, Bariloch Foundation Argentina 1976; Reshaping the International Order, ed. J. Tinberjen (RIO), London 1977; Employment, Growth, and Basic Needs: A One World Problem, ILO Geneva, 1976.

25. J. Sirotkovic: Teori ja i politika ekonomskog razvoja Informator, Zagreb, 1976, pp. 3–27.

Marx and Lenin speak in their writings) or the State itself must assume the function of such changes through its policy (to which Keynes refers in his General Theory). Now, it will be a question of choice for each and every developing country to select the method of bringing out the needed "institutional changes". Should these changes take place gradually step by step through moderation of socio-economic policy of planned development (like that of India) or the drastic socio-political ones (like in China or Cuba) or the revolutionary military type (in Ethiopia or South Yemen), is a debatable point. People in the developing countries will have to decide this question. Sometimes the decision could be made by a popular democratic vote (like in India) and at others by organized institutions (political parties or army as is the case in some African States) or one individual alone. Anyhow, the process of economic growth has to be understood as a social question.

The development of socio-economic structure in the sense of an "adequate institutional framework" for the generation of a favourable social climate and growth of output, shall depend on the "willful" i.e., conscious and concrete measures of economic and social policy, which in turn shall vary according to the type of socio-economic (capitalist, socialist or mixed) system. Measures of economic policy in fact being an instrument of social influence on economic structure of the society, stem from the inherent social characteristics of the system in question. Thus, the entire problem of socio-economic development is a question that lies within the very domains of three basic elements, i.e. economic structure, economic system and economic policy. In this respect some fundamental researches have been made in economic theory of self-management system in Yugoslavia (to which we have already referred) which could provide some very useful ideas to the developing countries in their quest for "independent solutions" to the problem of speedy growth and economic development.

While the "social conditions" or the "favourable institutional framework", i.e. the economic system, constitutes the basis for socio-economic development, the economic structure and economic policy is, indeed, tied to the problem of factors of production. The western and socialist theory hardly seem to differ in principle as both rest on three basic factors, i.e. land, labour and capital, with technology being part of capital. While the classical theories treat capital and technology as the primary factors,

Marxian theory, however, rests on the active role of "labour" (not in the sense labour force but as a source of active work on material "factors of production"). From the point of view of the developing countries, the approach should be two-fold. First, favourable "social conditions" must be ensured by making changes in the existing social structure as a pre-condition to growth. Myrdal [14] stresses the need of such imminent social changes in developing countries. However, the road to such changes could vary according to the level of socio-economic and cultural development. What seems certain, at least to us, is that in the developing countries the State will have to adopt an active role in this process. For doing so, as against political measures it will have to make an excessive use of measures of economic and social policy. Of course, care shall have to be taken of the ultimate development goals as suited to the needs of individual society. Secondly, attaining the higher standards of living for their people, attention will have to be paid to careful and rational use of all the human and material resources of the country, i.e. for the "satisfaction of basic human needs" and elimination of "mass poverty" and securing a "better distribution" of the produced national income and wealth.

Such a theoretical approach under the existing conditions of most countries of the developing world, where social conditions are generally unfavourable, the level of national output low and work force in abundance, it is often proposed that the growth should be "balanced" and "sustained". This can hardly be attained, for the developing countries will have to devise methods of rapid changes in the economic structure in first place, as this could possibly be reached in relatively short time, while the desired changes in social structure, will be a long drawn out game. Favourable social climate shall follow the economic changes but very slowly.

Speedy material growth ask for an increase in the gross national product of a country. This would require an intensive investment of men and material resources on one hand, and changes in institutional framework and technology of production on the other. As we all know, in developing countries the rural sector is predominant, and thus due to the nature of production process in this sector we cannot expect the national product to grow at an exceptionally high rate, and least of all think of changes in economic

structure through rapid industrialization, due to the fact that the demand for the means of production shall be much higher than the current level of output in the economy could sustain. In other words, this will lead to a shortfall in already meagre consumption. This, however, does not mean that a change need not be made. This fact leads us into the circularity of logic, and the question arises as to how to solve it? In our opinion the policy makers have the task to create conditions for a "big push" (as Hirschman suggests) to get the development process moving. Any such push will have positive effects in those branches of economic activities, which have bigger capacities of absorption of men and material resources that are readily available in the country itself. Since, the developing countries are undergoing a pressure of demographic explosion, naturally, any solution of the development problem could not be sought of, without taking into consideration an efficient and rational manpower planning. Larger countries like China, India, and Brazil need to evolve methods of initial capital accumulation through policy of full employment of labour. Manpower being an active factor of production could substitute, although only partly, the deficiency of capital.

Very often, technology and its transfer is mentioned as a limiting factor of development in these countries. Although it does have constraints on development, but solutions can be found by mutual cooperation through international agencies and international aid.

The problem of speedy economic development in the developing countries could thus be tied to a couple of factors, i.e. institutional changes, manpower utilization, capital supply and the technological factors. In specific cases according to the inherent basic characteristics of underdevelopment in these countries each of these factors shall have a special role to play. It will thus be essential, while devising any theoretical solution, that each case of development is studied separately. Certainly, positive social climate or a suitable institutional framework is a precondition to all the solutions. This will best be reflected in socio-political and cultural setting of any economy. There seems to be a general consensus among economists that the existing framework in the developing countries is not best suited to development and it does require changes. The dispute, however, is on the methods of changes only. The freedom which these countries have gained lately from colonialism is only partial, as it only pertains to political power, whereas, economically

many of the smaller countries are only the dominions of the former colonial powers Not only this, some have become subject of economic and ideological domination of advanced socialist economies, reproducing exactly the same old colonial relations as did the capitalist countries in the past. Further, the internal class struggle in some countries presents a case of early feudal and capitalist society of nineteenth century. Although, under international pressure and due to internal awakening, a process of transformation is under way, but it could hardly be termed satisfactory. The internal struggle for political power, and thus for economic power, is subject to foreign influence and vested interests. Therefore, any progress towards economic development could hardly be dreamt of without taking into consideration this aspect.

It is a common argument in most circles, that the increase in the level of national income of these countries will create a positive social climate for development. This could be a true hypothesis in the long run, but the concrete evidence of economic growth of last three decades show that inspite of a relatively higher rate of growth in developing countries, the net addition to the real income per head, in most developing countries is roughly one dollar per annum, and the distributive pattern of growth had hardly any effect on the institutional and social structure in these countries.[26]

Thus, socio-economic backwardness, generally speaking, is a hindrance to speedy development of the developing countries. The tempo and degree of change in the social structure shall ultimately dictate the rate of growth of the means of production. The cultural heritage in some countries, could, however, pose obstacles to change, as drastic departure from traditional ways might meet retaliation from the masses, and use of force might hurt the very cause. Asian countries do have such problems and policy-makers need an extra sense of care in handling the crisis situations, which at times seems to be lacking. In such cases, the desire of social transformation becomes a subject of gradual mass opinion building which is time consuming. Sometimes, the factor may even be a few decades, and till then we need patience, which may not always be forthcoming.

26. For details refer to the study of World Bank group (Chenery and Ahluwalia, Redistribution with Growth, IBRD Research Centre and University of Sussex, Oxford University Press, 1979).

The basic fact that the developing countries possess a huge potential of manpower, with the current rate of demographic expansion of 2.5 to 3 percent, we cannot expect any stabilization point of manpower to reach in the near future. The net effect is that the per capita output is either going to stagnate at the current level or to increase insignificantly. Absolute number of population being large, in some countries it is a socio-economic problem in itself and needs an extra care. In such cases (China, India, Indonesia, Bangladesh and Pakistan) an adequate mechanism of rational use of manpower and full employment is the basis for the success of development efforts. Devised solutions must count on this basic fact, and pattern of development will have to be such that absorbs a large number of people. In other words, the development process will have to be labour intensive rather than capital intensive (capital already being in short supply). This, however, will require all the ingenuity the countries possess, for the task is a gigantic one. This, however, does not mean that in countries like India and China, capital intensive solutions need not be attempted. The question will have to be dealt with simultaneously, and an optimum combination between industry vs primary sector oriented growth will have to be searched for.

Capital formation is of strategic importance for the development of any economy. Most of the developing countries, in general, suffer from shortage of capital, because the current consumption leaves very little room for savings and investments. This is due to a variety of reasons.[27] Because of a relatively small saving margin out of the national income, and investment being already low for the same reason, any further growth of national output is hindered. The capital scarcity has so far been financed by either measures of deficit financing or foreign aid. Unfortunately, both have, in most cases of developing countries, proved to be disastrous. It has led to excessively high rates of inflation dismantling the entire economic system or very heavy foreign debts bringing many countries to the brink of bankruptcy. Such situations further limit the choice of a capital intensive strategy of development. Then what is the answer to the problem? One strongly feels that this has to

27. For details refer to R. Nurkse's excellent elaboration of the problem in his book, Problems of Capital Formation in Underdeveloped Countries, Basil Blackwell, Oxford, 1958.

be tackled through the "strategy of self-reliance," which means that capital accumulation will have to be labour oriented. The success of such a strategy in some countries, e.g. Brazil, Spain and Yugoslavia might offer some consolation to those surrounded by pessimism. This, however, would put strong pressure on the current level of standards of living of the people, which is already very low.

The problem of capital formation, requires further consideration. Meanwhile, we are not concerned here with this question, as this is a matter of detail and needs careful study. However, we may point out that for capital formation in the developing countries, we need to have a developed mechanism of market in general and capital in particular. This, naturally shall involve development of financial institutions, expertise, etc. which generally is lacking in most cases. It simply is not enough to say that in case of lack of capital sources, we need to turn to utilize labour as a source of capital formation as Nurkse has pointed out. Experiences in utilizing labour as a source of "primitive accumulation" in China and some other countries have given limited but positive results, as such strategy too requires a bare minimum of capital for mass of work-force.

Next, technology as a factor of production in the sense of technological innovations is of great importance. In this respect, the developing countries lag far behind the developed world. Due to the lack of scientific research facilities, available funds for such work, scarcity of trained personnel, most countries fail to use it as a positive factor of growth. There are few countries like, Mexico, India or Brazil which have succeeded to some extent to cash on the positive effects of technological development, but not to the maximum possible advantage. Most technological solutions that are foreign, may not correspond to the needs of the developing countries in their approach, as these are primarily devised in the developed countries with different objectives and are generally costly. Furthermore, technology transfer from the developed countries to the developing might involve some constraints of political or financial nature, and may prove at times rather detrimental to national interests. It is, therefore, essential that suitable technological solutions that fit to the needs of the developing countries are devised with the help of the developed countries locally. International agencies, and individual concerns in the developed countries, on the mutual benefit

basis, may facilitate the process of technology transfer and innovation.

Finally, the general conclusion that we would like to draw here is that any "generalized theoretical approach" to development must be based on the above mentioned considerations. There is no universal drug for common ills of all the developing countries. Each country need to search for its "own path of development". The models of economic growth could be numerous, but the success will depend on the basic approach to the problems of each country being a special case of the general rule.

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CHAPTER FOUR

Some Growth Models Commented

Theories of economic development and growth have been generating enough of controversy since Harrod's Essay in 1939. By their very nature the growth theories have been amenable to the use of mathematical methods, and the economists and econometricians, have made extensive use of such methods to simplify the complicated growth phenomenon. At times it is, therefore, claimed that the theorists have been churning out impressive, highly complicated and at times meaningless equations, on the basis of mechanical, simple and pseudo-economic relationships, based either on Neo-classical, Keynesian or Marxian thought. However, the growth models have, on one hand, invited academic interest and, on the other, the creation of policy oriented growth model has been necessitated by actual needs, in many countries. But in some countries, the growth predictions have gone far very sour indeed. Nevertheless, it is not at all our intention, to contest the utility of growth models in economics as such, more so in the context of developing countries in particular, as they do help in the logic of explaining basic constituents of growth mechanism and the policy options to realize the envisaged objectives.

The modern growth theories[1] have been developing since the

1. H. Jones classifies growth theories into: (a) grand, (b) economic development, and (c) modern. The grand theories, according to him "intend to capture the essence of the process of growth for all societies at every point in history. A grand theory is never purely economic—a large variety of political, sociological and even psychological factors are intermixed so as to produce an all encompassing vision of the long run process not only of economic growth but also the development of society...Smith, Ricardo, Malthus, Mill and in particular, Marx—were all grand theorists." The "economic development theories," according to Jones, are intended to apply to "the particular problems of present day developing countries," whereas

birth of "macroeconomic methods" which are of Neo-classical or Keynesian heritage in the western economic theory. By adding old with new concepts to Keynes' "macro-static" concept of General Theory, models of long run process of growth have frequently been constructed during the last four decades. By limiting his `analysis to the short run, Keynes was able to impound into *ceteris paribus* all characteristics of an economy that change more slowly than the immediate determinants of total demand. His short-run mechanism is assumed to work itself out in a setting in which capital, market structure, social environment, income distribution, etc., remain unchanged. However, an extension of comparative statistics might permit an examination of the effect of permanent change in any variable of the *ceteris paribus* on the equilibrium level of income. But, except for capital stock, such changes are assumed to be exogenous in Keynesian model. Harrod [1] of all first introduced the implications of a changing capital stock for the behaviour of an economy, and thus dynamizes the whole economic thinking of the post Second War years.

Harrod's steady growth approach was later elaborated by many others. Inspite of shortcomings, the approach has been used either as a rationale behind the planning procedure or as part of forecasting mechanism, as its chief appeal lies in its simplicity of projection of the growth rates and corresponding investments required to maintain such a growth rate. Stimulated by Harrod's work in Dynamic Theory, Robinson [2] set out to formulate the "generalization of the General Theory" of Keynes, and works along with that of Kahn [3], Kaldor [4] and Pasinetti [5] forms the nucleus of what has come to be known as the "Cambridge School" in growth theory. Later many economists have attempted to correct the "Harrodian problems," by introducing neo-classical long run "well-behaved" production function, "malleable" capital, varying capital-output ratios, etc. One may mention here the works of Solow [6], Swan [7], Hicks [8], Meade [9], Uzawa [10] and others. Likewise, growth models have also been a subject of interest in the economic theory of socialism. Increased use of

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the "modern theories" mean to cover the "theories developed in the years since the so called Keynesian Revolution, using a relatively small number of precisely defined economic variables in the construction of a formal model of an aspect of the process of growth" (Jones, H., An Introduction to Modern Theories of Economic Growth, London, 1975, p. 4).

mathematical methods by Soviet planners in projecting the future growth of output during the 1920s, did lead not only to the development of sophisticated techniques of planning such as input-output analysis by Leontief [11] but also to the theories of growth of Soviet economy by Buharin [12] and Preobrazhensky [13], a reference to which has already been made in the preceding chapter. Feldman [14] and Kovalevskii [15] presented two sectoral models of Soviet economic growth, which have later served as the basis for planning models of developing countries (evidently the reference is to the Mahalanobis' model of Indian planning, which is an advancement on Feldman's model in a sense). However, in models of socialist economic growth, investments posed a particular problem which Leontief and others tried to solve through the inter-sectoral output-input models or linear programming techniques, and Kantorovich [16], Feldman and others by reinterpreting the Marxian schema of expanded reproduction. Moreover, the problem of general equilibrium and shadow prices continued to haunt the Soviet and other economists, until Lange [17] did not present his model of socialist pricing under the mechanism of 'ideal market'. Similar to Keynes, Kalecki [18] during the thirties developed an approach to macro-economic theory, which was the more concise and directly applicable to the study of growth and development.

The growth models in socialist economics, like in the western economic theory have equally suffered from the common criticism that these have been far from real and highly aggregative in character. Recent works of economists like Samuelson [19], Morishima [20] and Desai [21] have tried to elaborate the Marxian growth theory. Morishima goes so far that he insists on honouring Marx and Walras as the progenitors of the modern dynamic theory of general economic equilibrium. He considers the Marxian macrodynamic model highly relevant to contemporary economics. He combines Marxian model with Von Neumann's [22] in his attempt to construct a new Marx-Von Neumann theory of growth.

However, in the present discussion, we shall not be considering all the known growth models, but shall restate some of the important ones, that have been frequently mentioned in economic literature and represent a landmark not in growth theory alone but economic thought as such. In addition to this, we shall introduce our own

growth model, which is just a modest effort to explain the growth phenomenon in the developing countries.

HARROD'S MODEL OF STEADY GROWTH

Although Keynes provided a general framework of growth theory, Harrod gave the initial stimulus to the rebirth of interest in economic growth. All growth theorists have followed his tradition but preferred to go back to the neo-classical long-period theory for their theoretical basis. However, his approach to growth is specifically Keynesian not only in the spirit of conception but also in the details of execution. Based on Keynes' short-run macroeconomics, Harrod concentrates on the essential conditions of equilibrium between aggregate savings and investment in a dynamic economy. Harrod's views have been reinterpreted, modified and extended by many including himself [1] (1939, 1948, 1960 and 1970).

The fundamental aim of Harrodian theory of growth is the construction of the "fundamental dynamic principles", as he himself has claimed. He conducts the equilibrium analysis in a highly aggregated framework of an economy where only one good is produced and relative prices are constant. In his model:

(a) The savings S are assumed as a simple proportional function of national income Y, or, $S=sY$, where s is the average and marginal propensity to save;

(b) The amount of capital K and labour L (which is assumed to grow at a constant exogenous rate n is represented by $\dot{L}/L=n$), required to produce given output Y are uniquely given;

(c) The capital stock K does not depreciate. The capital output ratio is treated constant ex post and variable ex ante. The average and the marginal capital coefficients, although Harrod does not mention explicitly, are treated as equal, i.e. $K/Y=\triangle K/\triangle Y$;

(d) The technology is supposed to be neutral; and

(e) The factor prices remain unchanged.

The "fundamental equation", as Harrod calls it $\dot{Y}/Y$, is the rate of growth of output. It shows that it must equal the ratio of propensity to save s to the capital-output ratio v, if an equilibrium between the aggregate savings S and aggregate investments I is to be maintained over the time.

Harrod's "fundamental equation" can be either, as is usual, interpreted from the point of marginal capital-output ratio v (being

the actual rate of change in capital stock or actual investment) to the actual rate of change in output (i.e. $v = \dot{K}/\dot{Y} = I/\dot{Y}$) or, alternately, from exclusively a theoretical point of view, if the marginal capital-output ratio, is interpreted as expressing entrepreneur's requirements for the increase in capital stock, given the growth of income and output. From former interpretation point of view the equation can be written as:

$$\frac{\dot{Y}}{Y}\,\frac{I}{\dot{Y}} = s = \frac{S}{Y} \tag{1}$$

and in alternative sense, using the symbol v_r for marginal capital-output ratio, the equation becomes:

$$\frac{\dot{Y}}{Y} = \frac{s}{v_r} \tag{2}$$

In equation (1) by cancelling the $\dot{Y}$'s and multiplying both sides of the equation by Y it reduces the identity that investment must equal savings. Equation (2) expresses the rate of growth of output G_w which will satisfy the investors that they are investing the right sum. However, both the equations imply that

$$G_a v = s = G_w v_r$$

Now if the actual rate that results G_a equals the necessary growth rate G_w then it is evident that v must equal v_r. Harrod calls G_w as "warranted rate" and defines it as "that over all rate of advance which, if executed, will leave the entrepreneurs in a state of mind in which they will be prepared to carry on a similar advance."[2]

It is evidently clear that his conception of "warranted" growth is an entirely new concept of "equilibrium growth". Meanwhile, there is hardly any explanation as to why should the economy grow at a warranted rate. One may also note that if the actual rate does not equal the warranted rate, then it is a simple case where the capital stock in actual will not be equal to the desired capital stock

2. R.F. Harrod, Towards a Dynamic Economics—Some Recent Developments of Economic Theory and Their Application to Policy, Macmillan, London, 1948, p. 80.

that the investor might consider appropriate. Since the actual rate of growth could not permanently exceed the rate of growth of labour force because of an assumed constant labour-output ratio such that

$$G_a < \dot{L}/L = n$$

Now, if the economy is already in a state of full employment, a continuation of such a state over time would naturally imply that the actual growth rate will equal the exogenous growth rate of labour force n. But, as Harrod claims for equilibrium steady growth state, the actual rate must equal the warranted growth rate. Under conditions of full employment, then

$$G_a = G_w = n$$

or

$$G_a = s/v_r = n$$

which means that the economy would be growing at a constant proportional rate of $s/v_r = s/v = n$. However, as the critics point out, there is hardly any chance of this happening. It might just happen by a sheer accident, that steady growth at full employment is generated, according to the Harrodian concept.

Moreover, Harrod states that once G_a departs from G_w, it will depart further and further away from equilibrium. He writes, "Around the line of advance which if adhered to would alone give satisfaction, centrifugal forces are at work, causing the system to depart further and further from the required line of advance."[3] Thus, equilibrium between G_a and G_w is a knife-edge equilibrium. It follows that the major task of the growth policy will be to maintain long run stability. For this purpose, he introduces the concept of natural rate of growth n.

The Harrodian growth model has been frequently commented upon and the critics point out that, given the independent constituent variables his model should attain an equality of the warranted rate of growth s/v_r and natural growth rate n which is highly improbable. It is also noted that the departure from the actual growth rate G_a in Harrodian system, from the warranted rate s/v_r is far from being self-adjusting and cumulative in effect.

3. R.F. Harrod, ibid., p. 85.

Critics feel that the Harrod model does not provide any room for public spending and its effects on growth of incomes and output. The model also fails to provide an explanation for the changes in general price level and its impact on the equilibrium. However, the Harrodian model, as Kurihara [23] puts it, remains a landmark in growth theory for its, "attempt to dynamize and secularize Keynes' static short run saving and investment theory." According to him it is purely a laissez faire model based on the assumption of fiscal neutrality and designed to indicate conditions of positive equilibrium for an advanced economy.

From the developing countries point of view, Harrod's model as presented in 1960 (compared to the earlier versions), seems to be more applicable. He has elaborated the supply side of his fundamental equation by introducing the rate of interest in determining the supply and demand for savings. The saving component is of great significance for the developing countries, and will have profound influence on steady growth. Since, low saving ratio and high level of investment coupled with high inflation rate, is characteristic of the developing countries, Harrod suggests expansion of investment through bank loans and inflationary profits, as a source to generate growth. Here, Harrod, also suggests the need for changes in social and institutional factors in developing economies, as these constitute greater obstacles to growth rather than the low rate of savings.

Harrod's approach has greatly influenced the planning policy in the developing countries, as some of the planned projections in developing countries are based on his model. Some critics like Hirschman [24], however, still feel that the model is based on unrealistic assumptions and thus has very little practical significance in the developing countries. Nevertheless, it must be added that it may prove useful in determining the planned growth rates in the developing countries.

THE DOMAR MODEL

Domar's [25] name is invariably associated with that of Harrod, although in his quest for a solution of steady growth state, he did come to very similar conclusions as did Harrod. Domar's model of economic growth revolves around the central issue as to the rate at which the investment should increase in order to make the increase

in income equal to the addition in productive capacity, so that the level of full employment is maintained. He tries to solve the problem by establishing a link between the aggregate supply and aggregate demand through investments. His approach focuses on the dual nature of the rate of investment in a capitalist society, i.e. first, the investments determine the actual level of income through the Keynesian multiplier; and, secondly, the investments by increasing the size of the capital stock increases the maximum potential level of income.

In his model let

$Y =$ the actual level of output;

$\overline{Y} =$ the maximum potential level of output;

$\alpha =$ the constant average propensity to save;

$I =$ the flow of investments; and

$\sigma =$ the "potential social average investment productivity" ($\sigma = \dot{\overline{Y}}/I$), which Domar assumes to be constant.

The actual level of income at any point then is

$$Y = 1/\alpha I$$

or

$$\dot{Y} = 1/\alpha = \dot{I}$$

Domar's main object in his quest for the state of equilibrium is the discovery of the growth rate of investment that would maintain $Y = \overline{Y}$, and for that we must then have

$$\dot{I}/I = \sigma\,\alpha$$

This fundamental equation in Domar's system demonstrates that as both α and σ are assumed to be constant, the rate of investment will maintain actual income equal to the maximum potential level of income which is a constant proportional rate of $\alpha\,\sigma$. This is the rate at which the investments must grow to assure the use of potential capacity in order to maintain the steady rate of growth at full employment level in the economy. Any deviation from Robinson's [2] "golden path" will, according to Domar, lead to cyclical fluctuations.

Domar's model in essence resembles that of Harrod's. Harrod's s is Domar's α, and Harrod's v_r is reciprocal of Domar's σ. Thus, Harrod's warranted growth rate G_w is Domar's stable rate of growth, $\sigma \alpha$. There are, however, certain points of differences too. While Domar uses the reciprocal of marginal capital-output ratio and the Keynesian concept of investment multiplier. Harrod uses the capital-output ratio and the Hicksian accelerator. Furthermore, to Harrod cyclical fluctuations are integral part of the growth route, whereas in Domar's model these are accommodated by allowing the potential social average productivity σ to fluctuate. Finally, while Domar takes into account the technological relationships between capital accumulation and eventual full capacity growth in output, Harrod explains the behavioural relationships between rise in the demand and output on one side and capital accumulation on the other.

Since, there is a very high degree of resemblance between Harrod's and Domar's models of growth, the criticism that is levied against Harrod's approach, hold valid against Domar's as well.

THE NEO-CLASSICAL MODELS OF GROWTH

The neo-classical approach to the analysis of a growing economy has attracted much more interest than did the Harrod-Domar steady growth theories. Economists who viewed Keynesian theory only as a special case in generalized neo-classical theory have followed an entirely different approach which has come to be the dominant method in growth economics. These theorists accepted the Harrodian "fundamental equation" in a truistic sense, but looked towards the neo-classical theory for long-run framework to explain the basic constituents of the Harrod-Domar parameters. They basically attempt an answer to the "instability problem" by devising capital-output ratio as flexible rather than fixed. They introduce production function, which is supposed to be "well-behaved"; the returns to the scale are supposed to be constant and that there is no technological change. The capital is taken as "malleable", or, in other words, taken to be adaptable to more or less capital intensive techniques of production. Implicit within the "well-behaved" production function, that conforms to the "Inada

Conditions",[4] capital and labour are treated as perfectly interchangeable.

Such a neo-classical approach is adopted by Solow [6], Swan [7], Tobin [26], Hicks [8], Meade [9] and Uzawa [10]. While models presented by Solow, Swan and Tobin are one sector models, that of Hicks, Meade and Uzawa are two sectoral neo-classical models. We may consider here the basic features of these models.

The essence of one sector or simple neo-classical growth model perhaps can best be illustrated by the comment of Solow on the neo-classical model that it demonstrates the special nature of the "fundamental opposition of warranted and natural rates." He makes the following basic propositions in the model:

(a) The economy is supposed to be a model one in which one good is produced. He remarks that, "There is one commodity output as a whole whose rate of production is designated $Y(t)$. This implies that savings are simply invested and no investment function needs to be introduced in the model. The economy's total stock of capital $K(t)$ takes the form of accumulation of the total composite commodity."

(b) The saving function is a simple proportional one and it highlights the similarities and differences from Harrod's, as it assumes the form:

$$S = sY, \quad \text{where} \quad 0 < s < 1$$

(c) The labour force is assumed to grow at an exogenous constant proportional rate n, i.e.

$$\dot{L}/L = n$$

(d) The technical possibilities of the economy are reflected in "continuous, constant returns to scale" such that the aggregate production function is:

$$Y = F(K, L)$$

or

$$y = f(K),$$

where

$$y = Y/L, \quad \text{and } k = K/L$$

4. K. Inada, Two Sector Model of Economic Growth: Comments and a Generalisation, Review of Economics and Statistics, 1964, pp. 119–127.

(Note: Swan and Tobin assume the aggregate production function as "well-behaved" and it conforms to the "Inada Conditions", but Solow, did not treat it as well behaved.)

While the Harrodian model revolves around a fundamental equation, defined in terms of rate of growth of output, the neo-classical model implies a different basic equation that traces the path of capital-labour ratio through time (k). The neo-classical model can be restated in the following manner;

In one good economy the income measured in terms of single all purpose good is equal to aggregate consumption plus aggregate investment, i.e. $Y \equiv C + I$; and in terms of per worker at time t, $Y/L\,(t) \equiv C/L\,(t) + I/L\,(t)$.

The capital-labour ratio (k) = K/L, which makes it evident that if K and L both are growing at the same rate, k is then equal to zero.

If the proportionate rate of growth ($\hat{K} = \dot{K}/K$) of capital stock (K) is greater than the proportionate rate of growth of labour ($\hat{L} = \dot{L}/L$), then the capital-labour ratio is growing, i.e., $\hat{k} \equiv \dot{K}/k \equiv 0$, and vice versa. It follows that

$$\hat{k} = \hat{K} - \hat{L}$$

Then $\hat{L}$, the rate of growth of labour force is constant and equal to n and the final equation can be written as:

$$\dot{k}/k = \dot{K}/K - n$$

$$\dot{k} = \dot{K}/K \,.\, K/L - n\,K/L$$

$$\dot{k} = \dot{K}/L - nk$$

$$\dot{K}/L = \dot{k} + nk$$

Assuming that the capital stock does not depreciate, investment is simply the rate of increase in capital stock of composite commodity, i.e. $\dot{K} = I$. Thus, $I/L = \dot{K}/L$. And since $\dot{K}/L$ is $\dot{k} + nk$, we get:

$$f(k) = C/L + \dot{k} = nk$$

This can be further transformed into the basic equation of neo-classical economic growth, as:

$$\dot{k} = f(k) - C/L - nk$$

recalling that, $f(k) = y = Y/L$, is

$$\dot{k} = Y/L - C/L - nk$$

$$\dot{k} = S/L - nk$$

Further assuming that, $S = sY$, then

$$\dot{k} = sY/L - nk$$

or, assuming the function $Y = F(K, L)$ it follows that

$$\dot{k} = sf(k) - nk$$

What follows from the above neo-classical system of growth is that:

(a) The balanced growth solution is stable in the sense that whatever the initial values of all the variables in the model, the economy moves steadily towards a balanced growth; and

(b) The balanced rate of growth, in the neo-classical model is the constant exogenous rate of growth of the labour force. In the long-run the economy converges to balanced growth path, and the long run rate of growth under neo-classical assumptions for an economy is, therefore, n and is entirely independent of the proportion of income saved.

The simple neo-classical model, as depicted above, is not, of course, an adequate representation of the most sophisticated and mathematically advanced neo-classical growth theories. It does, however, exemplify most of the central features of neo-classical vision of the process of economic growth.

Two sector models of economic growth can be viewed as natural extension and development of simple neo-classical model. These models are originally the brain child of Marxian two department

schema of expanded reproduction. Basically, the two sectoral model employing fixed coefficients or neo-classical technology share a common structure. A single homogeneous consumption goods is supposed to be produced with the aid of homogeneous capital and labour. The homogeneous consumption goods itself is produced in a separate sector of industry by homogeneous capital and labour. The two sector models have proliferated in the years since Meade's [9] investigation, although such models based on Marxian schema are of much earlier date.

The two sectoral model represents a miniature economy of Walras style, what Morishima [19] calls "Walras type model of matchbox size." The momentary equilibrium in such models is associated with set of prices P_m and P_c, for capital and consumer goods respectively, together with a wage rate w and rental rate of capital r such that all available capital and labour is allocated to one or other sector, each sector pays the inputs the value of their marginal product and saving equals investment. In a two sector model the existence and uniqueness of static momentary equilibrium corresponding to the initial capital-labour ratio is necessarily established. The fundamental equation of the system is devised and growth path defined. The model lays down the condition under which the momentary equilibrium will tend to follow the growth path.

Uzawa [10] model is the best known two sectoral neo-classical model of economic growth in recent literature. We may put it as follows in a nutshell.

–Output of capital goods (Y_c) are produced subject to "well-behaved", constant returns to scale, neo-classical production function, i.e.

$$Y_m = F_m\,(K_m, L_m)$$
$$Y_c = F_c\,(K_c, L_c)$$

–Homogeneous labour force grows at an exogenous constant proportional rate n, i.e.

$$\dot{L}/L = n$$
$$L\,(t) = L_o\, e^{nt}$$

–Capital stock depreciates at constant rate λ, which is independent whether it is producing industrial or consumer goods.

–Both the sectors of the economy are supposed to maximize profits under conditions of perfect competition. Hence, the wage rate w and profit rate of capital r, must be same in both the sectors, and the capital and labour in both the sectors must be paid according to its marginal product. Thus,

$$P_m \,.\, \partial Y_m/\partial K_m = r; \quad P_c \,.\, \partial Y_c/\partial K_c = r$$
$$P_m \,.\, \partial Y_m/\partial L_m = w; \quad P_c \,.\, \partial Y_c/\partial L_c = w$$

–An extreme classical saving function is assumed in which all profits are saved and all wages consumed. Thus,

$$wL = P_c\, Y_c$$
$$rK = P_m\, Y_m$$

–In momentary equilibrium position the following conditions are simultaneously satisfied:

$$\begin{aligned}
&- Y_m = F_m\,(K_m, L_m) &&; \quad Y_c = F_c\,(K_c, L_c) \\
&- P_m.\partial Y_m/\partial K_m = r &&; \quad P_m.\partial Y_m/\partial L_m = w \\
&- P_c.\partial Y_c/\partial K_c \;\; = r &&; \quad P_c.\partial Y_c/\partial L_c \;\; = w \\
&- \bar{K}_c + K_m = K &&; \quad L_c + L_m = \bar{L} \\
&- P_c\, Y_c = wL &&; \quad P_m\, Y_m = rK
\end{aligned}$$

–The output of capital goods industry Y_m is partly used to produce net increase in the stock of capital and partly to replace the depreciating machines. Thus the rate of change of the capital stock is given by

$$\dot{K} = Y_m - \lambda\, K$$

Since, we know that, $Y_m = rK/P_m$, then

$$\dot{K} = rK/P_m - \lambda\, K$$
$$\dot{K}/K = f'\,(K_m) - \lambda$$

It follows from the neo-classical model as represented by Uzawa, that the model uses extreme classical saving function, which implies that the marginal product of capital in capital goods industry must equal the sum of the constant rate of depreciation and labour force growth.

Similarly, the economy according to the model gravitates to the balanced growth path whatever the initial conditions of capital-labour ratio in the consumption goods industry, is always greater than, or equal to the capital-labour ratio in the capital goods industry whatever the value of the wage rate or profit ratio.

The neo-classical models of either type shows that the Harrodian "knife-edge" problem is soluble, or, in other words, the steady growth can be achieved simply by varying capital-output ratio. In fact, equilibrium growth in neo-classical models is consistent with the concept of dynamic disequilibrium, where output, capital stock, labour supply and investment grow at constant exponential rate or they do not change. It is the mythical "golden age" of Robinson [2].

The neo-classical models are severely criticized due to their unrealistic assumptions. The ideas of perfectly competitive economy, constant returns to scale, perfect malleability of machines such that the capital-labour ratio can be changed over short and long run, etc., can hardly be defended in the current day to day economy. Similarly, the absolute certainty of all variables, and closed laissez faire economy assumptions can hardly be sustained. All these defects make the neo-classical models impractical and sometimes even difficult to understand.

From the developing countries point of view, it is hard to swallow the idea of "well-behaved" production function, and the marginal productivity theory of distribution in dominantly peasant economies. It is equally difficult to accept the argument that the given structure of market and financial mechanism in most developing countries would allow the equilibrium between r and w to be achieved. However, the major difficulties that arise in the application of neo-classical model stem from capital and the type of aggregation of the models.

FELDMAN'S MODEL OF ECONOMIC GROWTH

One of the most significant developments of economic theory of

socialism is the long-run planning model as presented by Feldman in 1929. His approach is based essentially on Marxian conception of macroeconomy, but quantitatively similar to the Harrod-Domar approach. He introduces in his model two variables, i.e. capital effectiveness coefficient (ratio of national income to total capital) and the investment coefficient (share of investment in the national income) as the basis for his maximum and minimum variants for growth projections. The basic characteristic of the model is his two department Marxian schema, with minor adaptations. In his model, the department I, includes all activities that increase the capacity to produce the output, whereas the department II, includes all activities that sustain output at current level. Such categorization recognizes the key to economic growth in the "capacity of category I".

Although critics like Domar [25] and Weitzman [27], have noticed that the scheme is theoretically attractive, it is, however, difficult to give it any but rough empirical significance, simply because an economy is not organized in this manner. Moreover, the principal error lay in his "estimates" of the capital effectiveness coefficients. He seriously underestimated the difficulties in estimation of future "capital-output ratio". According to him, "the only difficulty is but one that can be easily overcome, consists in determining the coefficient of effectiveness. This should be done for its separate components (i) the intensity of labour utilization, (ii) the duration of utilization of equipment, and (iii) the technical relations between net output as the volume of the required capital."[5]

Another hypothesis much publicized in the Soviet Union during the 1928–30 discussions on the general plan, like that of Feldman was that of Kovalevskii. His approach was very similar to that of Feldman. He uses ratio of national income to total capital, which he calls the "coefficient of reproduction." His, "index of productive accumulation," is nothing other than the share of investment in national income. By projecting these two "synthesizing coefficients," he obtains, as Feldman does, the changes in all other indexes of the plan. Kovelevskii uses comparative methods to estimate the rates and coefficients of reproduction by using the US statistics, which according to the critics was even worse than the extrapola-

5. G.A. Feldman: Analiticheskii metod postroeniia perspektivnykh planov", Planovoe Khoziaistvo [Planning of National Economy,], no. 12, Moskva, 1929, pp. 95–127.

tions made by Feldman, becaue this pretended to give some historical justification to his adopted coefficients.[6]

MAHALANOBIS IMPROVEMENTS

Mahalanobis [28] has done some improvements in the basic Feldman planning model by introducing extra sectors. As Feldman's model stemmed from the need for a development policy having direct implications on the planned growth, so did Mahalanobis model for the planning purpose in Indian economy. Feldman's model considers capital as the limiting factor of growth, and so does Mahalanobis use it in the construction of his "allocation" model for a planned economy. He constructed a single sector model in 1952, extended it to a two sector one in 1953 and finally to a four sector model in 1955.

The assumptions of Feldman-Mahalanobis type model are the following:

(a) The economy is basically divided into two sectors, one producing capital goods which can be installed in either of the two sectors, and are non-transferable; the other produces consumption goods. A proportion μ of the current output of II is allocated to I; hence $(1-\mu)$ is allocated to II.

(b) Both the sectors have fixed coefficient technologies, i.e.

$$Y_1 = \min(K_1/v_1,\ L_1/u_1)$$
$$Y_2 = \min(K_2/v_2,\ L_2/u_2)$$

Y_1 and Y_2 are outputs of the two sector model; K_1 and K_2 are the quantities of capital in each sector, v_1, v_2, u_1, u_2 are the fixed coefficients. However, capital is only a limiting factor in the growth process, and in Feldman's model, "it is assumed that the labour is available in any quantity and composition" (a very similar thesis is adopted by A. Lewis in his growth model with "unlimited supplies of labour").[7] Hence the technology is defined as

6. N.A. Kovalevskii, K postroeniin generalnoga plana, Planovoe Khoziaistvo [Planning of National Economy,], no. 3, Moskva, 1930, pp. 117-211.

7. See A. Lewis, The Theory of Economic Growth, George Allen & Unwin, London, 1955.

$$Y_1 = K_1/v_1 \text{ and } Y_2 = K_2/v_2$$

(c) The capital stock does not depreciate as a consequence of $\dot{K}$, the rate of change of capital goods equals total investment I which in turn equals the output of capital goods in sector I.

(d) The economy is closed and capital goods cannot, therefore, be imported from outside.

(e) The production of the sector I goods is completely independent of the production of the sector II goods.

Based on the above assumptions, the rate of growth of overall investment in the economy is:

$$I = Y_1 = K_1/v_1$$

and the rate of change in the investment is

$$\dot{I} = \dot{Y}_1 = 1/v_1\ \dot{K}_1$$

and $\dot{K}$ depends on I_1 or μI, thus

$$\dot{K} = I_1 = \mu I$$

and by substitution, we get,

$$\dot{I}/I = \mu/v_1$$

Thus it is evident that the proportionate rate of growth of investment is μ/v_1. An increase in μ will increase the rate of growth of investment. Similarly, a decrease in capital-output ratio v_1 in the capital goods industry will also increase the rate of growth of the total investment. The output of sector II, is thus

$$C = Y_2 = K_2/v_2$$

and the rate of change in consumption goods output is, consequently,

$$\dot{C} = Y_2 = 1/v_2.\ \dot{K}_2$$

Since, by definition, $\dot{K}_2 = I_2 = (1 - \mu)\ I$, we g

$$\dot{C}/C = (1 - \mu)/v_2 . I/C$$

In Feldman type model the rate of consumption does not, in general, equals the rate of growth of investment. However, as time goes, the rate of growth of consumption increases until it attains the long term rate of growth which is given by the rate of growth of investment μ/v_1. Secondly, the overall rate of growth of national income, will not, in general, be equal to the rate of growth of total investment output, but will tend towards the rate μ/v_1 in the long run.

The long run rate of growth of the Feldman style economy is closely related to Harrod's warranted rate, s/v. In balanced growth economy μ equals the ratio of the capital installed in the sector I, to the total capital stock, i.e.

$$\mu = K_1/K = v_1 \ Y_1/v_1 \ Y_1 + v_2 \ Y_2 = v_1 \ I/v_1 \ Y_1 + v_2 \ Y_2$$

If, as in Harrod's model $v_1 = v_2 = v$, then

$$\mu = vI/v \, (Y_1 + Y_2) = vI/vY = I/Y = S/Y = s$$

OUR OWN MODEL[8]

Perhaps, it would be of some use if we mention our own model also. It is a two sectoral allocational-optimalization model. The model is based on the assumption that the economy consists of two characteristically different sectors which are closely related to each other and between them there exists a certain degree of equilibrium. Another assumption in the model is that the advanced or industrial sector, as we may call it, is the superstructure based on the primary sector. While the primary sector produces needed food for its own as well as for the consumption of advanced sector, it also produces raw material for the industrial sector. The output of industrial sector is supposed to meet the requirements for the industrial goods for consumption of household; for production of output in primary sector, goods as machines, equipment, chemicals, etc.

The basic object is that the economy produces a maximum of output in the primary sector such that it stimulates output in the industrial sector. The prime-mover of maximization of the output

8. Refer for details, see author's book, Teorija i politika privrednog razvoja u zemljama u razvoju, Zagreb, 1977, pp. 79–86.

is the overall investment activity in the two sectors, and the efficiency of investment in the primary sector determines the efficiency of investment of the advanced sector. An essential presupposition in our model is that in the "initial stage" the technology and the so called "institutional framework" is given, which in the long run may change.

To start with, it is assumed that the aggregate analytical category is gross national product (Q); which is consisting of the output in both the sectors (Q_1 and Q_2), and there is a degree of equilibrium at each level of growth on the growth route; and that the investments determine the growth.

Since, the total output of the economy is defined as the output of industrial sector (Q_1) and primary sector (Q_2) the economy thus produces:

$$Q = Q_1 + Q_2$$

Let us assume that the increase in the output of the primary sector ΔQ_2, depends upon (i) an increase in the labour force (capital being scarce in the developing countries) employment ΔL_2, (ii) on an increase in employment of labour force in the industrial sector ΔL_1 and (iii) upon an increased demand for raw materials in the industrial sector ΔS_1. Assuming a linear relationship of the variables, we may write the equation as

$$\Delta Q_2 = l_1 \, \Delta L_1 + l_2 \, \Delta L_2 + s_1 \, \Delta S_1$$

Where l_1, l_2 and s_1 are the coefficients of marginal productivity of the corresponding factors.

On the other hand, an increase in employment and the demand for raw materials will depend upon the investments in industrial sector I_1 and the investments in the primary sector I_2 which means that,

$$\Delta L_1 = f\,(I_1)$$

$$\Delta L_2 = k\,(I_2)$$

$$\Delta S_1 = g\,(I_1)$$

The total investments I are thus

$$I = I_1 + I_2$$

that are given, and what interests us, in the first place, is the optimal allocation of these investments in the economy, such that the output of the primary sector is maximized. In other words, the investment function is determined by

$$\max \Delta Q_2$$

If we take the investments I as constant, fixed in past period, the maximum ΔQ_2, is determined from the equation,

$$\Delta Q_2 = l_1 f(I - I_2) + l_2 k(I_2) + s_1 g(I - I_2)$$

or

$$d(\Delta Q_2)/dI_2 = O$$

It follows then that

$$O = l_1 \, d f(I_1)/d I_1 (-1) + l_2/dk(I_2) \, dI_2 + s_1 \, d g(I_1)/dI_1 (-1)$$

or

$$l_2 \, d k(I_2)/dI_2 = l_1 \, d f(I_1)/dI + s_1 \, d g(I_1)/dI_1$$

This would mean that the maximum of production in the primary sector will be attained when the increase in production of primary sector due to an increase in the employment of labour force in that very sector equals the increase in output that shall result due to an increase in employment and demand for raw materials in the industrial sector.

We believe that our model can very well be adapted in favour of the advanced sector by making necessary alterations in the variables. We also feel that our model can very well suit the development strategy of the developing countries, that have predominantly agricultural sector and large population which is under-utilized, and the economy needs to gradually build up an industrial sector of its own. The idea behind the proposition is that the economy tends to be self-sufficient and stands upon its own feet without any outside help.

KALDOR'S MODEL OF GROWTH

Kaldor [4] has discussed two versions of his model of economic growth (1957 and 1962). Here we will restate the famous Kaldor-Mirrlees model, which is originally developed as Keynesian "alternative theory of distribution." His approach to savings (S) becomes the central element of his theory of economic growth. The basic feature of the model is that the saving ratio can be made flexible to ensure a steady state of economic growth. Unlike the neo-classical models the capital-output ratio remains fixed. Instead of a production function, Kaldor introduces a technical progress function. An investment function is specified which depends upon a fixed pay-off period for investment per worker. Both common assumptions of full employment and perfect competition are dropped altogether. Instead, the model starts with the basic assumption that the total income (Y) is equal to the sum of wages (W) and profits (P), or

$$Y \equiv W + P$$

Total savings are given as savings out of wages (S_w) and profits (S_p), that is

$$S = S_w + S_p$$

such that

$$S = s_w W + s_p P$$

and

$$S_w = s_w W$$

$$S_p = s_p P$$

where, s_w = propensity to save by wage earners, s_p = propensity to save by profit earners and S = total savings.

The dynamic equilibrium according to the model requires that $I = S$, which necessarily implies that

$$I = (s_p - s_w) P + s_w Y$$

Dividing the above equation by Y and rearranging we get the following:

$$P/Y = 1/s_p - s_w \,.\, I/Y - s_w/s_p - s_w$$

Similarly, dividing by K we may obtain,

$$P/K = 1/s_p - s_w \ I/K - s_w/s_p - s_w \ Y/K$$

The above equation in Kaldor-Mirrlees system constitutes an alternative to the marginal productivity theory of distribution. Some economists feel that his system can be regarded as a special system of neo-classical marginal productivity theory. It provides an escape route to Harrod's steady growth problem by making capital-output ratio v variable. In Kaldor's system over all average propensity to save s is no longer constant as

$$S/Y = s = (s_p - s_w) \ P/Y + s_w$$

Pasinetti [5] has made some improvements in Kaldor-Mirrlees system by correcting some "logical slips". Samuelson [18] and Modigliani [29] have criticized the Kaldor model for they consider his assumption of fixed class of income receivers as unrealistic. The model also fails to exhibit an explicit behavioural mechanism which will ensure the actual distribution of would be income such as to maintain the steady growth path. As far as the final assessment of the model is concerned, it can best be commented in the words of Sen [30]: "The Kaldor model of distribution is based on a number of restrictive assumptions.... It is not easy to marry this macro-model to assumption of individual behaviour, and to combine it with attempted profit maximization requires that (a) expectations unfulfilled, which may be all right, but also that (b) this should lead to no feedback in entrepreneurial decision-making, which is not so all right...what is less clear is whether the Kaldor model provides a satisfactory alternative or involves a jump from the frying pan to the fire."[9]

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CHAPTER FIVE

Strategy of Economic Development: Some Policy Options

It follows from our preceding theoretical approach, that the task of development that faces the developing countries is not so simple. The basic characteristics of the developing economies, i. e. the dual economic features, lack of capital flow, primitive technology, excess labour supply and unfavourable terms of trade, etc., do constitute the complex nature of the development process. The choice of a development strategy shall have to be, therefore, dependent upon these very basic features of an underdeveloped economy. Since all the developing countries do not have uniform characteristics and differ poles wide, any development strategy suited to one shall hardly correspond to the needs of the other. As we have done in our model and presumed certain basic determinants of development process in the developing countries, the choice of development strategy which might follow must take into account the nature of the economy and the existing level of its development.

The strategic choices may be in between the following policy options:

— development of agriculture and other primary activities as the dominant sector of the economy,
— industrial development as an effort to speed up the tempo of development process,
— dependence on external flow of capital as a source of meeting the capital needs of development projects,
— dependence on native domestic sources for capital needs of development,
— population and employment policy as a source of development,

— high primary exports or otherwise improvement of the existing terms of trade, and
— transfer of technology for modernization and development.

All these development strategies, or better say the dilemma regarding choice of policy need careful examination. It may, however, be stated at the outset that any of the choices may not alone be able to solve the puzzle of underdevelopment in the mass of developing countries. The experiments in development during the last three decades do prove some examples of successful development strategies, which may prove useful in paving the path of development under similar conditions that might prevail in some other country.

DEVELOPMENT OF AGRICULTURE

It is a well known fact that most of the underdeveloped economies are primarily agriculturally oriented. It provides the basic needs of the society, i.e. food, raw material for the manufacturing and meagre industrial activity, employment to the majority of population, and a source of exports. Now the question arises, whether the developing countries should abandon the agricultural activity and shift towards the industry as a source of speedy development leading to higher incomes and standards of living, or strengthen, rationalize, improve technologically and make productive the agricultural sector, and thus form the basis of the process of development. Evidently, the answer lies not in siding with one or the other alternatives, but in a careful decision as to the degree of dependence on agriculture as the dominant sector of the economy.

Ever since at least from the time of Ricardo [1], the theology of development has emphasized that agricultural progress contributes to the support of greater productivity throughout the economy. He viewed the problem of diminishing returns in agriculture as crucial. He believed that the limitation on the growth of agriculture output set the upper limit of the growth of the other non-agricultural sectors and to the capital formation for the economic expansion. In the twentieth century, it has become customary to suggest that ways of greater agricultural productivity and output contributes to an economy's development. Kuznets

[2] calls these as market contribution and factor contributions. These four ways are:

1. by supplying foodstuffs and raw materials to other expanding sectors in the economy,
2. by providing an investible surplus of savings and taxes to support investments in other sectors,
3. by selling the marketable surplus for cash, that will raise the demand of rural population for the products of other sectors, and
4. by relaxing the foreign exchange constraints by earning foreign exchange through exports of primary products or by saving foreign exchange by not importing the foodstuffs and other primary products.

A given sector contributes to an economy when it provides an opportunity for others to emerge, develop and cope with. This Kuznets calls market contribution. The factor contribution occurs when there is a transfer of loan resources from a given sector to others. From the point of the former, agriculture makes it feasible for other sectors to emerge and grow and for international flows to develop, just as these other sectors and the international flow makes possible for agricultural sectors to operate more efficiently as a producing unit and to use its products more effectively as consuming units. In the latter sense, it transfers resources to other sectors.

From traditional interpretation point of view, the development process is considered as one of structural transformation from an economy where agricultural employment and output continues to decline in the share of labour force in agriculture and decrease in the share of agriculture in GNP. But this transformation in itself is dependent on the development of agriculture. Industrial sector will be reduced by the lack of agricultural progress—unless the economy is in an exceptional situation of being able to export manufactured goods for import of foodstuffs, and raw materials (e.g. Hong Kong and Singapore).

Lewis [3] in his dual sector model shows that if food supplies to the modern sector do not keep up with the demand for labour in this sector, it will have to consume a larger share of its output in feeding its labour force, leaving very little for capital accumulation. Also, it remains a fact, and as is believed by Mellor [4], that agri-

culture, in theory and practice, can and does provide large net transfers of resources to other sectors, and if used productively the rate of economic growth can be accelerated.

Utility of agriculture as supplier of foodstuffs is fairly clear. If the labour force for other sectors is drawn from the agriculture the new workers force must be supported for food by the primary sector. A growing urban sector labour force must be supported by an expansion of food supply. As indicated by Johnston and Mellor [5], not only are high rates of population growth in the developing countries but the income elasticity of demand for food in these countries is considerably higher than in the developed countries. A given increase in per capita income, therefore, has a considerable impact on the demand for agricultural products in the lower income countries than in the developed ones.

Through the transfer of capital and labour to non-farm activities, the agriculture may also provide an investible supply of surplus resources. Agriculture, can be a source of voluntary savings as well as a source of compulsory transfer of resources by price policy, taxation or a similar measure of economic policy. The measurement of such forced contribution to economic growth is not easy. But it certainly was quite important in the early phases of economic development in some countries like Japan and USSR as has been pointed out by Kuznets [2]. However, the most crucial problem of the modern economic growth according to him remains, as to how to extract from the products of agriculture, a surplus for the financing of capital formation for industrial growth, without at the same time retarding the growth of agriculture, under conditions where there is no easy way for quid pro quo for such surplus is available in the country. It is only the highly developed open economy that can minimize this painful task of initial capital accumulation.

Another way of transfering resources from the agriculture to the non-agricultural sectors is by turning the terms of trade against agriculture by imposing price control on agricultural products, taxation, or the multiple exchange rates that discriminate against agriculture. If the improvements in terms of trade in non-agricultural sectors raises the incomes in these sectors, and savings take place at a higher marginal rate than the decreased agricultural incomes, aggregate saving rate shall increase, and agriculture will have made a net contribution to the total saving in an indirect manner.

A marketable surplus from agriculture is needed not only to provide the wage goods to industry, but also to widen the home market for industrial products. The demand for industrial products depends upon available cash in primary sectors, unless the country can export its growing industrial output. This happens to be true of most of the developing countries.

Finally, agriculture may in some cases be a major source of foreign exchange earner in the primary phase of its development and provide the badly needed resources for the import of technology and capital goods. A higher productivity in agriculture can not only earn the foreign exchange, but save the highly precious exchange by providing for the needs of the country and thus discouraging the imports of food and agricultural raw materials. Examples are not difficult to find among the developing countries (e.g. India) where the latter is more important than the former.

Considering the contributions of agriculture, economists have favoured that if there is to be in the long run a structural change in output and labour force, there must first be in the short run "successful policies of agricultural development" to facilitate this transformation. Even though the long term objective is the structural change, there remains the complex problem of timing this transformation and intertemporal sequences of policies to accomplish it. The lessons of recent history have shown that an "urban bias" can discriminate against agriculture, and the net flow from agriculture may be excessive. Not only may there be an inefficient use of the resources transferred from agriculture, but it may itself be at the expense of more employment and higher income in the agricultural sector. Then should not the "growth promoting interactions between agriculture and non-agriculture sectors" mean more than that agricultural development should have simply an instrumental value for industrial development? Viner [6] replies to this question by commenting, "that the real problem in poor countries is not agriculture as such, or the manufacture as such, but poverty and backwardness and poor agriculture, or poor agriculture and poor manufacturing. The remedy is to remove the basic causes of poverty and backwardness. The misallocation of resources as between agriculture and manufacture is probably rarely a major cause of poverty and backwardness, except where it is government induced misallocation." He further adds, "Economic improvement may call for greater industrial-

ization, but this should be a natural growth....In many countries, the most promising field for rapid economic development lies in agriculture....There are no inherent advantages of manufacturing over agriculture, or of agriculture over manufacturing. The choice between expansion of agriculture or industry be left for the free decisions of peoples."

The emphasis on development of agriculture now is not only for its instrumental value in sustaining expansion in other sectors, but for its own absorption of labour and its own increase of real income among the rural poverty stricken farmers and landless labourers. The widely expressed view is that the root of the employment problems lies in the fact that the modern economic activity is not being diffused to the needs of the country. An agricultural strategy of development that would improve the balance between rural and urban relations requires planning, developing infrastructure, appropriate technology and the availability of complementary resources in rural sectors. If in the past, agriculture had its instrumental value then it should in future have intrinsic value of its own.

The author would put forward a thesis here, i.e. the developing countries having predominantly agricultural sector, such as India, Pakistan, Egypt, Korea, Mexico, etc. should concentrate not on choosing the agriculture or industry as their development strategy but on improving the agricultural output by increased capital flow, improved methods of agriculture, application of advanced technology, and land reforms as has been done by Israel, Yugoslavia, Korea and Taiwan. This shall, on the one hand, provide the basis of growth for industry and other sectors, and on the other, will not force massive population to manufacturing which certainly will not be able to absorb the riding tide of population growth in some of the countries like China and India.

DEVELOPMENT OF INDUSTRY

The preceding thesis does not necessarily shut off the choice of industrial development as a potential for speedy economic development, and a method of structural change in the developing countries. The industrial revolution of the 19th century, rise of the industrial proletariat and the relative truthfulness of Marxian analysis of evolution of society, does speak for the industrial development as

successful development strategy in modern times. The "development gap" between the developed and the developing, and the existing level of living standards in the world still stresses the need for industrialization. Since many of the developing countries do not have agriculture as the primary sector, but depend upon mining and primitive industry, it is customary to stress upon the need to industrialize. However, in some recent writings, based on arguments of shortage of resources, deterioration of environment, problems of urban development, and higher social costs, there is a disenchantment with industrialization. It is further stressed that the type of industrial growth that had actually taken place in some countries and the minor benefits that it had brought with it in these countries. But, as Streeten [7] puts it, "in a re-orientation of goals in the industrialization as the servant of development, regains its proper place in the strategy. Industry should produce the simple producer and consumer goods required by the people, majority of those who live in the countryside. ... Much of the recent criticism of inefficient, high cost industrialization behind high walls of protective and quantitative restrictions should be directed at the type of products and of techniques which cater to highly unequal income distribution and reflect entrenched vested interests. It is in no way the criticism of industrialization for the needs of the people." In other words, industrialization as a means of quicker development should be preferred as a development strategy with the objective of meeting the needs of the society for attaining a higher level of material and cultural needs of the people. The choice of the type of industrial growth should depend upon the level of economic development in a particular country, keeping in mind the feeding and absorbing capacity of other sectors. Industrialization of future demands a shift in policy, sometimes via import substitution to a different pattern of domestic output and industrialization via export substitution. As a corollary of this shift, the old dispute about industry versus agriculture will not be a real issue any more.

There is no doubt that industrialization offers substantial dynamic benefits that are important for changing the traditional structure of the less developed economy, and the advocacy of industrialization may be particularly compelling for primary export countries that confront with the problems of lagging export demand while having to provide employment for a rapidly increasing labour force. Rosenstein-Rodan [8] emphasizes external economies to

be realized in the process of industrialization, and advocates the "big push" theory in the form of a high minimum amount of industrial investment in order to jump over the economic obstacles to development. The supporters of industrialization as a strategy of development also favour unbalanced growth, because experience, as in Japan, has shown that the rate of growth is much higher through unbalanced growth than through a balanced one. As the target of development is not only to run but to win the race of progress, as is expressed by Hirschman [9] "our aim must be to keep alive rather than eliminate the disequalibria...If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequalibria."

In many developing countries the dominant strategy of industrialization is the production of consumer goods in substitution for import. Given the existing demand for consumer goods, it had been a post war rationale of industrialization for the home replacement of these finished goods. The import substitution strategy of industrialization has been based on the need of a balanced payment in foreign trade. It has been generally supported by the policy of protectionism. This strategy has been followed in the past by the developed countries themselves. Historical studies in some countries show not only that the share of industrial output rises with development, but also that the growth of industries based on import substitution accounts for a large proportion of the total rise in industry.[1] It is also true that much of the recent economic history of some rapidly developing countries can be written in terms of industrialization working its way backwards from the final advanced stage to domestic production of intermediate and finally to that of basic, industrial materials.

At first the country may import semi-finished goods, and perform domestically the final touches of converting or assembling the almost finished industrial imports into final products. Later on with the growth in demand for the final product, a point may be reached at which the import demand for intermediate components and basic goods is sufficiently high to warrant investment in their production at home and the market has become sufficiently large

1. H.B. Chenery, see Patterns of Industrial Growth, AER, September 1960, pp. 439–41, 451. See A. Hirschman, The Strategy of Economic Development, Yale Univ. Press, New Haven, pp. 112 and 117.

to reach a domestic production threshold.[2] The historical evidence on the contribution of import substitution to industrialization applies only to some countries, while in other countries, the replacement of imports has not been significant. Moreover, as Chenery [10] suggests, we should recognize the fact that the rise of industry through import replacement was in the large part due to systematic changes in supply conditions, and not simply to a change in the composition of demand with rising income. Change in capital stock per head, the increase in education and skills of all kinds, were instrumental in causing a systematic shift in comparative advantage as per capita income rose. But for a presently underdeveloped economy there is no reason to expect that a tariff on industrial imports would cause changes favourable to substitution of domestic production for imports.

Disappointment of the hope that industrialization would lead to high employment has been the most important reason for the South-East Asian countries' disenchantment with industrial growth. The failure, however, as it is claimed, is not due to industrialization as such, but due to the concentration in the South-East Asian countries on import replacement for the Western urban markets, and due to their failure to promote labour intensive exports on a substantial scale. Singapore is an exception to the case.

The social costs and benefits of industrialization are intimately bound up with the problems of urbanization. Industrialization has taken place, in most Asian countries in big cities, which serves as base points for most local raw material supplies, and to their markets. There has been a concentration of work-force, personnel, entrepreneurs, managers and the like. The growth of industrialization has added to the attraction of these cities, and young want to move to metropolises. External economies have accrued to the nucleus of industry and have attracted more industries to such centres. Industrial, commercial and trading also have been attracted to these metropolises. The problems of urban growth have grown in Calcutta, Bangkok, Manila and Jakarta and alternatives are being looked for the diversification of industries elsewhere.

In recent years some doubts have also been expressed on the validity of the role of industrialization in development. It has been depicted as a social ill No doubt it is a fact that after the

2. See A. Hirschman, ibid., pp. 112 and 117.

Second World War the emerging developing countries laid great hopes in industry for an accelerated growth in incomes, which would lead to a surplus, which in turn would further stimulate economic development. They also hoped for a faster growth in output, which would lead to structural changes, increased income and economic growth. Higher productivity and increased efficiency prompted the growth and diversification of manufactured exports, if favourable terms of trade prevailed, thus enabling these countries capacities to meet the increased imports for development. But, at the same time it was also hoped that industrialization will bring the social transformation, social equality, higher level of employment, more equitable distribution of incomes and balanced regional development. Unfortunately, industrialization, in the way it has been carried out in the developing countries was thought to be synonymous to economic growth, but this pattern of development has not been shared by all developing countries. It has not led to the socio-economic gains expected from it. Growth of incomes and pace of development has been slow, unemployment has increased and social unrest has become a major problem.

Having failed to fulfil aspirations of the masses in the developing countries, it is now concluded that industry should receive less importance, compared to other economic activities. Although some of the arguments are valid, the developing countries do appreciate that industrialization by itself could not achieve economic growth, and if stated objectives could not be fulfilled, industry should not be blamed. It must, however. be recognized that industry is the most dynamic sector in any economy, the way to industrialization and thus to transformation of society and the fulfilment of social and economic objectives is a long drawn process. The fulfilment of the goals and aspirations of countries, therefore, depends in the first place on the strategies and policies adopted by these countries, with industry playing its part and not substituting other sectors.

The complementarity of sectors is an essential condition to the development process. If placed in proper perspective as part of an overall strategy, industry should fit into a pattern of industrial development suited to a particular country. In this respect, industry could play its role as a major sector in achieving objectives of such a strategy and the desired changes in the style and pattern of development. Characteristics of the industrial sector is its

power to innovate and its forceful impact on the process of change. Industrialization is not only a way to increase output or national income, but it also means introducing modern technology and changing ways of life, and finally the structure of economy.[3]

Finally, one can add to the preceding discussion, the argument related to the choice of industry as a development strategy, the fact that industry should not in itself become the goal of development, but on the contrary as a means to achieve the development. The developing countries should not apply methods of forced industrialization at the cost of natural progress of other sectors, but should simultaneously develop industries as a complementary sector to the primary sector and as a gradual process. The developing countries, need not necessarily follow the patterns of industrialization of the developed countries, but take advantage of select, evaluate and develop industries suited to their needs. Let not all developing countries repeat the mistakes of forced industrialization process in some countries (like in India during the 1950's) to the neglect of agricultural sector, creating serious imbalances in the economy.

EXTERNAL AID FOR DEVELOPMENT

It is one very common development dilemma, whether a country should rely on external aid or not. Whether this transfer of resources be in the form of public financial aid or private foreign investment, or nonmonetary transfer of managerial and technical knowledge. The question of appropriateness, is generally answered by advocates of external aid, but arguing that it will help to attain development objectives, such as higher incomes and employment and greater equality. It is often considered as the solemn duty of developed countries to assist the developing countries by extending only a small part of their gross products in the form of external aid.

Public financial aid in the form of concessional finance, or the out right grant in aid in the capital flow of the receiving country

3. For a detailed discussion on a case for industrialization refer to the Industrial Development Survey, UNIDO Vol. 5, 1973, Vienna.

has a two-fold function. It supplements the low domestic savings of the developing countries, and help to fill the foreign exchange gap. This function in economic theory has often been called "two gap analysis."[4] The two gap analysis of the role of external aid is also significant in indicating that one gap maybe greater than another ex ante, i.e. if, for example, the foreign exchange gap is greater than the domestic gap, foreign aid becomes the source of allowing the flow of the required imports so that the full saving potential can be realized, and resources will not be left underutilized because of import bottlenecks.

From the point of view of the developed countries, we should also recognize the costs of aid to the donor countries. And from the recipient country's point of view the benefits accruing are not very encouraging. There is considerable controversy going on over the contributions that aid makes to development. Some economists dissent from the conventional point of view by arguing that as an instrument of development aid is generally of limited value, because it cannot substantially affect the basic factors which are needed to promote the material progress of the people in the aid receiving countries. Others, however, emphasize the need to improve the quality of the aid-relationship, not only from the "performance" criteria but also in context of meeting the needs of the poverty stricken groups, redistribution and employment.

The real flow of resources for development purposes needs to take into account the existing international monetary system, the trade policy of developing countries, and the favourable climate for private foreign capital. The question that needs to be answered while accepting the foreign aid by a country is many-fold. The answer must contain the clear cut conception of political, strategic and socio-economic constraints. So far as the aid is free of constraints, it should be accepted in either form, i e. normal loans, soft credits, grants and subsidies, or commercial credits. Once the foreign resources have been inflowed, the recipient has to organize its utilization for the development purpose, else the effect is going to be negligible. The external aid could be from international sources, like IBRD, IDA, IMF etc., or bilateral or multilateral coming

4. For details of this analysis see article of V. Joshi, Saving and Foreign Exchange Constraints, in P.Streeten (ed.), Unfashionable Economics, Weidenfeld Nicalson, London, 1970 and H.B. Chenery and A.M. Strout: Foreign Assistance and Economic Development, AER 1966.

directly from a government or private business organization. The answer to the question as to why the developed countries should extend help to developing countries is difficult to answer. But, perhaps the most suitable answer should be searched in the fact, by helping the developing, the developed are helping only themselves, because the fact remains that there is always a transfer of resources from less developed to the developed economy even in international community just as it takes place in a particular country. In order to keep the circularity of the flow intact some resource transfusion is necessary. However, it would certainly be best that a country if possibly can afford to be at its own without foreign aid, it would serve the interest of its people more than by accepting foreign resources, but such possibilities in a dependent world will be remote.

DOMESTIC RESOURCES FOR DEVELOPMENT

It is commonly argued that the developing countries should use their domestic resources for development. Dependence on foreign resources may lead them unexpectedly into difficulties (e.g. Yugoslavia's economic difficulties during the fifties due to the economic blocade by Comintern countries). The central question related to the dependence on domestic resources for development is that of mobilization of these potentially available resources. The developing countries are characterized by abundance of labour and limited output due to the shortage of capital. It is widely recognized that the developing countries must make additional efforts to mobilize and achieve effective use of their internal resources. The mobilization of domestic resources requires policies to facilitate the process of capital accumulation as the major factor governing the rate of development. The Marxian analysis of expanded reproduction is primarily based on the accumulation of capital—material and human. Models of economic development as presented by Rostow [11], Lewis [3] and Harrod [12] are all based on the importance of the function of capital. The Lewis model of dual economy that is claimed to suit best in the case of the developing countries, takes into account the unlimited supplies of labour as a source of capital accumulation. To him the central problem of theory of economic development is "to understand the process by which a community was previously saving and investing 4 or 5 precent of its

national income, converts into an economy where voluntary savings are running at about 12 to 15 percent of national income or more. This is the central problem because the central fact of economic development is rapid accumulation (including knowledge and skills with capital)." The fact that there exists in these countries, the technological dualism, the development process primarily requires large amounts of capital investment, particularly in the under-developed sector, i.e. the rural sector.

Certainly, there has been no tendency among the development economists to underestimate the importance of capital. On the contrary, it has been stressed strongly so that a reaction has set in, and there is a counterview that the role of capital has received excessive attention to the neglect of other components of the development process. The role of capital has best been studied by the UN ECAFE.[5] It has often been stated that if any one scarce factor of the development of the economy is to be singled out, it would be capital. The final goal of development would, therefore, be to break the vicious circle in between capital shortage and under-development, and to design the most efficient and optimum rate of capital accumulation.

The quantitative aspects of capital accumulation are of crucial importance in determining the most desirable rate of development. While planning the rate of development the planners in the developing countries must take into account the minimum rate of investment, possible maximum rate of investment and the absorptive capacity of the economy. This will automatically involve concentrating on the capital-output ratio or capital coefficient. According to Harrod, the relation of the rate of development (G) with capital accumulation (a), and capital coefficient (k) will be $G=a/k$.

To the extent that an increase in the rate of investment is necessary or desired, a developing country must mobilize domestic savings. If the investment is to increase there must be growing a surplus over and above the current consumption that can be tapped up, and directed into productive investment channels. The process of capital formation in the developing countries involves three essential steps: (1) An increase in the volume of real saving, so that the resources can be released for investment. (2) The channelling

5. Refer to the report of the UN ECAFE: Programming Techniques for Economic Development, Bangkok 1960, pp. 8–13.

of savings through a finance and credit mechanism, so that the investible funds can be collected from a wide-range of sources and claimed by investors. (3) The actual act of investment. Certainly, the process will require a suitable institutional framework. Overall, it is important for the capital formation to ensure an increase in savings through a reduction in consumption or through additional taxation, compulsory lending to the government and inflation or absorption of underemployed population in work. Though all these methods seem so simple, but in view of the prevailing conditions in the developing countries such a low level of consumption, existing heavy burden of taxation and a high rate of inflation, limit considerably the applicability of such methods. A glaring example is the Indian experiment.

In the developing countries, the role of governments in raising the volume of public savings is extremely important. Government's share in economic development has to come from the budget policy. Thus, the Government's tax policy is important to ensure the needed resources to allow for the purchase of investment goods from its revenue on one hand, and incidence of taxation on the stimulation or destimulation of various economic activities essential to economic development. The development of financial institutions and the financial policy play an important role to help overcome the shortage of capital and have an influence on the pattern of development. The banking and financial structure of a country serves as the basic infrastructure of development. Therefore, development of the same must receive a high priority in the effort to bring about economic development in these countries. The capital market, credit and monetary policy of a country influences the flow of domestic resources in economic development. Today inflation is a worldwide phenomenon. Practically all nations have learned to live with it, though it has its special dimensions in context of the developing countries. It can be an economic menace as in Chile and other Latin American countries in the 1970's, but can also be a useful source of economic development by stimulating involuntary savings through the government policy of recycling inflationary funds in productive purposes.

The choice of raising domestic resources for development as a strategy is rather a hard one. It requires great wisdom on the part of planners and sacrifices on the part of people, in the form of reduced present consumption for the sake of future. Though

there are certain limitations in its use as a successful strategy, for it ensures success over a long period only and at least a generation has to pass through hardships, but it certainly is beneficial as it creates a habit of self-reliance and savings on the part of people, and is free from all constraints that might be attendant on external resources. Experiments in self-reliance as a strategy of development have proved highly successful in countries like Yugoslavia, Japan, Brazil and Spain.

POPULATION AND EMPLOYMENT POLICY

Developing countries are characteristic examples of excessive population, high level of disguised unemployment and poor utilization of available manpower. Economists have lately started to consider the available potential human resources and their utilization as a source of a successful development strategy. The models of Lewis [3], Fei and Renis [13] and Nurkse [14] are not unknown in economic theory. Such models start with the basic Marxian concept that labour force is the only real factor of production. Since this factor is readily available in most developing countries why not it be converted as a source of capital formation which is so vital to economic development. Although these models have been criticized as impracticable, yet they have their note of reality.

Lewis in his model asserts that many developing countries conform to the classical model of capitalist growth with "unlimited" labour supply. He presumes in his model the existence of "subsistence" and "capitalistic" sectors, and the essence of economic development, according to him is the transfer of labour from the former. Thus, the utilization of excess labour is the source to development in developing countries. Enke [15] has made improvements on Lewis's model by explaining ambiguities of the presumptions such as profit and wage rates. But the theory as a whole has been under criticism, as experience has shown that in most developing countries the process of industrialization has failed to provide employment to the transferred labour force from agriculture, and there is already an acute urban unemployment problem. The real income gap between the two sectors has been much greater than anticipated by Lewis. And finally, the flow of labour force has been more than the modern sector could handle.

The Nurksian thesis of development is based on the concept of utilizing the disguised unemployment as a potential source of economic development. His concept suggests that in many developing countries, excess labour on land could be withdrawn from subsistence farming without reducing farm output. In other words, the marginal productivity of this labour is zero. If this part of the population can be employed elsewhere, above the zero level of productivity of labour, it is a net addition to economic development. Nurkse suggests that in the initial phase of transfer, let this labour subsist on the agricultural sector for their basic needs, and be employed in public works that need little capital investment. The theory had been partially confirmed in Asian countries. In India the popular "Shramdan" is what actually Nurkse meant by utilization of excess labour for capital formation. Irrespective of the theories that have been put forward, the fact remains that labour force, if properly utilized or employed gainfully, can step up the pace of economic development. Thus, the problem of development has to be tackled in terms of a successful employment policy. The role of employment policy is still more important in view of the increasing population in the developing countries.

In context of the population issue, knowing the fact that the pace of population growth in the developing countries is fast enough to retard their development efforts, the logical approach would be an intensive programme of birth control, without waiting for the process of socio-economic development to bring about a normal decline in population as it did in the developed countries of the West in the past. Basically, the author recognizes that the potentials of economic development are greater than the potentials of growth of population in the world. But to realize these potentials as early as possible, we must also recognize the benefits of declining fertility rate and consider the inclusion of family planning as a complementary policy to economic development. Due weight must be given to the fact that rapid population growth is both a consequence as well as a cause of poverty. A decline in population growth is highly correlated with a reduction in unemployment, better health care, more education, greater income and improvement in the status of women. The increased efforts of developing countries to bring about a drop in the birth rate, as is being done in India, Pakistan and Indonesia, have brought some encouraging results. But at the same time, it will be naive not to

recognize the potential dangers of an absolute increase in the world population.

The task of economic development in most of the developing countries would be far easier if they concentrated their efforts on both population and employment fronts. A reduction in population in general and successful employment policy involving such methods which require minimum per capita capital investments (such as development of cottage and small scale industries on Japanese pattern) would greatly ease the problem of generating higher per capita national income. Therefore, employment and population control, or, say manpower planning, should serve as one of the basic strategies of development in the developing countries.

TRADE STRATEGY

It is no more new to contend that international trade is the transmitting factor of economic development. In theory right from the mercantilists to the recent theories in international trade, it has been a preoccupation of the economists to argue a case for international trade as a factor of economic development. However, some economists are opposed to such concepts. They argue that the accrual of gains from trade is biased in favour of the advanced countries, that the foreign trade has inhibited industrial development in the poor countries; and that contrary to what would be expected for classical theory of free trade has, in practice accentuated international inequalities. There are economists who still maintain the traditional position that foreign trade can contribute substantially to the development of primary exporting countries and that the gains of international specialization merge with gains from the growth. A more solid approach attempts to identify the various conditions that favour or impede a process of export led development.

The phenomenon of changing international division of labour may also strongly influence the rate and structural pattern of the country's development. The concern over the role of developing countries in a new international economic order is linked with the problems of developing a new order of international division of labour. To what extent the primary producing countries can exert their resources in bargaining power, what is the scope of import

substitution, and what are the potentials of these countries to export non-traditional items, are some of the basic questions that need the answer to solve the development puzzle through international trade.

The increased pressure by the developing countries through UNCTAD and GATT, is not only a pressure for more trade, but more trade at higher export prices, and preferential terms of trade, and elimination of protectionism by the developed countries. The basic idea behind this pressure is to facilitate the transfer of real resources from the consuming developed countries to producing developing countries. The recent world wide energy shortage has just initiated the show of producer power as against the previous policy of developed world to exert pressure of the consumer power.

The foreign trade policy of a developing country is closely connected with the problem of shortage of foreign exchange which serves as a constraint on its development efforts. A number of theoretical sophisticated arguments support a protectionist trade policy for a developing country. In actual practice, however, the protectionist policies have rarely been adopted out of considerations such as betterment of terms of trade, raising of saving ratio, the external economies and the like. On the contrary, it has been the persistent shortage of foreign exchange and adverse balance of payment position that has compelled the developing nations to resort to protectionism or other measures of restricted trade policy. As the poor balance of payment position remains a permanent feature in these countries, and earned foreign exchange, is too short of the demand for it, a free trade policy in these countries will be an illusion. Of course, the oil rich countries like Venezuela, Saudi Arabia, Kuwait or United Arab Emirats, might afford a free trade policy, but others may not.

The policy analysis of the developing countries shows that these measures have been fairly disappointing as far as the conservation of foreign exchange is concerned. In some cases, the import substitution policy has actually intensified this shortage. Nor have the policies of import replacement generated industrialization as it did in Japan in its early phase of development after the war. The policy of industrial protection has also not helped to absorb the labour problem. Nonetheless, import substitution policies have been justified on the grounds of widening trade gaps, and the import restrictions have been intensified to ease the unfavourable balance of payments.

There is a definite change during seventies, and that too in the direction of lesser reliance on restrictive policies and on stimulation of exports of semi-manufactured and manufactured products to developed countries. This certainly requires an accommodation to some degree by the developed countries. But it also requires a changing pattern of international trading system. However, the advantages of developing countries lies in their cheap labour force, and regional integration and cooperation among developing countries enjoys special place in the domain of trade policy as their strategy of development.

TRANSFER OF TECHNOLOGY

Until a few years ago nobody would have doubted that the tremendous growth of world technological power, both science and engineering, could be a source of development for the developing countries. Only now some economists, like Singer [16], stress the use of transfer of technology as a strategy of development. It would mean that the more a country can draw from the accumulated stock of knowledge, the easier the task of development would become. He suggests that the world experience should support his thesis because of the fact that the US and Germany, developed faster than the UK where the industrial development first took place. Similarly, Russia, Argentina, Brazil and Canada followed their suit. Even the growth in developing countries is relatively fast by historical standards.

Very often the question is posed: why the developing countries fail to solve their development problem satisfactorily when the level of science and technology in developed countries is high enough for their low level of development, as the technology can be transferred? According to Singer, it is due to two basic factors, one being that while the developed countries solve particular problems with a given level of technology, in the developing countries on account of a higher rate of population growth, the same technology fails to meet their requirements; and, secondly, there is a severe disproportion in the creation of new knowledge between the two groups of countries.

Again, the two disparities as mentioned by Singer, in fact, are the two sides of the same problem. Taken together, they expose the falsity of the optimistic claim that there is a simple accumulation

of seience and technology which favours the newcomers in development. . Almost total creation of science is in developed countries and, naturally, this represents a system of solving their problems. The vast preponderance of the new science and technology in the developed countries also ensures what little has been done in the developing countries fails to reach the minimum scale at which it is effective. The result is that international technology which is shown by the first disparity, leads to a situation where growth is concentrated upon a small modern sector, while the resources of the developing countries are insufficient to spread participation in growth over more than a minority of the population and thus convert growth into real development.

The picture of simple concentration of knowledge, on which the developing countries can draw, is false. The brain drain is a simple illustration how the vast concentration of science and knowledge in developed countries reflects on the developing countries.

The limited impact of science and technology in the developing countries can be accounted for a variety of reasons, e.g. the weakness of scientific institutions, the orientation towards the developed countries and pressure of science and technology of advanced countries; the problem of access to the Western science and technology; the obstacles to the application of new technologies arising from underdevelopment itself; and finally, the lop-sided nature of the present international division of labour. As a remedy, one can suggest the goal of increasing the national power to create science and technology by the developing countries themselves, and direct it to their own problems. But it may be pointed out that except for a few countries like India, Brazil, Mexico, and Israel, such a capacity of developing countries is negligible or non-existent. The alternative to this is suggested that the developing countries should not waste their resources on developing their own technology, but could import it from the developed countries. Either way does not hold promise for two reasons, such as that the required technology might not exist at all or even the developing country might not even know of the existence and applicability of it to its requirements. The answer to the problem finally, therefore, may lie in an integrated effort of developed countries and overall efforts of the United Nations, to help develop suitable technology finan-

cially and science-wise, and thus help in the development process of the developing countries.

From the point of view of transferring the technology from developed to the developing countries, the strategy of technology transfer should take into account the fact that the capital is dearer and labour cheaper in developing countries; the large scale production of Western style goods may be unsuitable in certain countries, and the advanced technologies might in fact reduce the employment and real income in certain cases. Therefore, the choice of technology should concentrate on specially designed technology suited to these countries. This technology should take note of modern development in the field and concentrate on long established designs that suited to the similar stages of developed countries.[6]

THE CHOICE OF STRATEGY

We have expressed certain views on the choice of a particular type of development strategy and developed a case for or against such a choice. It would, however, be difficult to prescribe a uniform solution for the developing countries in general. The choice of a particular strategy in our opinion would depend on a careful study of the structure, potential, and goals of development in a particular country. The choice of a particular alternative will have to be suggested on the basis of its pros and cons. Although, the actual development that is taking place in the developing countries, consciously or by chance, is oriented in the direction of a particular strategy, its success or failure, might ask for a change in the strategy of further development. The national economic policy and the future planning of development would, therefore, by the logical corollary in the development of these countries.

As a conclusion to the above discussion, one may reproduce a concise result of the findings of Chenery [17] which may reflect on the results of a choice of a particular strategy of development as adopted by a particular country in its past development. The

6. For details see Keith Marsden, Progressive Technologies for Development, International Labour Review, May 1970, pp. 475–502.

TABLE V. 1. A CLASSIFICATION OF DEVELOPMENT

	1950 GNP per capita US$ (1964)	*Population 1960 (Millions)*	*GDP Growth 1950–60 (% a year)*	*GDP Growth 1960–69 (% a year)*	*Population Growth 1950–69 (% a year)*	*Increase in per capita GNP (Ratio 1969/1950)*	*Investment Ratio 1950–55*	*Investment Ratio 1960–69*	*External Finance (Ratio F/I 1950–60)*
A–Strategy: High Capital inflow									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Israel	534	2.1	10.4	8.7	4.2	2.54	.31	.24	66.7
Taiwan	95	10.6	8.1	9.9	3.2	2.71	.14	.23	39.3
Jordan	88	1.7	9.0	8.3	2.7	2.52	n.a.	.17	181.8
Greece	268	8.3	5.8	7.3	0.9	2.66	.18	.27	43.3
Puerto Rico	478	2.4	6.0	8.3	1.1	2.00	.20	.27	81.3
Korea, Rep. of	78	24.7	6 0	9 3	2.7	2.31	.12	.20	65.4
Panama	307	1.1	4.8	8.1	3.1	1.80	11	.19	55.0
B–Strategy: High Primary Exports									
Thailand	68	26.4	6.4	8.2	3.0	2.06	.13	.21	14.5
Trinidad and Tobago	335	0.8	7.9	6.9	2.5	2.25	.24	.25	25.1
Jamaica	231	1.6	7.5	3.8	1.8	1.79	.13	.24	47.9
Malaysia	185	8.1	4.1	6.7	3.0	1.67	.10	.16	–72.7
Iran	137	21.5	6.2	8.1	2.8	2.04	n.a.	.16	13 6
Nicaragua	197	1.4	5.5	6.9	3.2	1.74	n.a.	.18	n.a.
Venezuela	502	7.3	7.7	4.5	3.8	1.68	.25	.21	4.7
Ivory Coast*	139	3.7	n.a.	8.8	3.3	n.a.	.14	.17	–30.6
Iraq	106	6.9	9.9	6.5	3.1	2.45	.16	.15	–9.9
Zambia	113	3.2	5.7	6.8	2.9	1.82	.24	.27	–9.1

STRATEGIES OF HIGH GROWTH COUNTRIES

External Finance (Ratio F/I 1960–69)	*Capital Output Ratio*	*Primary Exports/GNP (Ratio 1960)*	*Trade Orientation Index*	*Export Growth 1950–60 (% a year)*	*Export Growth 1950–69 (% a year)*	*Industrial Production Ratio to Normal (1950)*	*Industrial Growth (% a year)*	*Primary Production Ratio to Normal (1950)*	*Primary Production Growth 1950–69 (% a year)*	
(A–Strategy: High Capital Inflow										
11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(1)
65.0	3.8	.061	M	21.8	15.4	1.28	11.9	.42	7.2	Israel
13.4	1.9	.103	M	6.8	23.6	1.22	16.1	.77	9.3	Taiwan
109.1	n.a.	.145	B	15.3	10.4	.91$	15.2	.40$	8.3	Jordan
32.8	3.4	.084	B	11.7	11.4	.90	8.0	.93	3.8	Greece
79.0	3.3	n a.	M	10.3	10.8	.90	6.5	.80	–1.6	Puerto Rico
53.0	2.4	.044	M	9.1	29.1	.80†	16.9	1.03†	3.9	Korea, Rep of
23.2	2.4	.340	P	4.3	13.2	1.02	14.2	.80	5.7	Panama
B–Strategy: High Primary Exports										
9.3	2.3	.171	P	3.8	10.4	1.08†	8.7	.91†	4.6	Thailand
26.6	n.a.	.630	n.a.	5.9	10.8	.96	10.0	1.32	5.1	Trinidad and Tobago
25.0	3.8	.330	P	14.0	6.3	1.19†	5.0	1.32†	2.6	Jamaica
–5.5	2.9	.316	P	0.4	6.8	.58$	6.4	1.23$	5.1	Malaysia
–0.5	2.0	.202	P	1.7	10.7	n.a.	11.2	n.a.	3.9	Iran
26.6	2.7	.261	P	7.6	10.4	n.a.	7.6	n.a.	3.6	Nicaragua
–7.3	4.0	.310	P	7.7	0.6	n.a.	10.5	n.a.	5.7	Venezuela
–11.9	2.1	.312	P	6.4	13.0	.60$	n.a.	1.41$	3.9	Ivory Coast*
–13.8	2.1	.334	P	14.8	6.3	.71†	6.8	1.49†	7.1	Iraq
–31.1	4.0	.454	P	10.1	13.1	.76†	13.8	1.53†	2.6	Zambia

C–Strategy: Moderate Capital Inflow									
Mexico	277	36.0	5.8	7.1	3.3	1.72	.16	.20	11.1
Turkey	154	27.5	6.3	5.9	2.6	1.88	.13	.17	13.8
Peru	194	10.0	5.2	5.3	2 7	1.53	.20	.19	n.a.
Philippines	107	27.4	6.6	4.5	3.3	1.52	.12	.19	13.9
Pakistan*	70	100.2	2.6	6.0	2.5	1.30	n.a.	.16	n.a.
Costa Rica	264	1.3	6.6	6.5	3.6	1.60	.18	.06	22.7
Singapore‡	434	1.6	5.4	7.0	3.6	1.51	n.a.	.13	n.a.
D–Strategy: Low External Dependence									
Japan	251	93.2	8.3	11.1	1.1	4.85	.29	.36	–0.5
Yugoslavia	187	18.4	7.1	6.9	1.2	2.63	.38	.32	9.5
Spain	240	30.3	6.2	7.4	0.9	2.85	.21	.23	3.0
Bulgaria	157	7.9	10.9	7.5	0.8	4.35	.17	.30	n.a.
Brazil	142	69.7	6.8	5.5	3.1	1.63	.15	.18	7.3

Sources: IBRD and Chenery, Elkington and Sims (1970).

§Columns 17 and 19: 1950 except 1960.

†Columns 17 and 19: 1950 except 1955.

*Countries having more than 50 per cent of GNP from agriculture in 1950

‡Singapore, 1951–60 Goods only.

The basic data are those compiled and circulated in January 1971 by the Economic Program Department, Socio-Economic Data Division, IBRD, under the title *World Tables*. References are to that volume unless otherwise noted. The data came from the UN, IBRD Country Reports, and national sources. The sample includes all countries having adequate data and a 5.5 per cent or more GDP growth rate plus several borderline cases (see text).

Col 2: 1950 GDP per capita (1960 for Ivory Coast) in 1964 U.S. dollars.

Col 3: 1960 (midyear) Population, except Jordan, Greece, and Yugoslavia 1961.

Col 4 and 5: Annual Average Growth Rate of Total Gross Domestic Product: at constant market prices whenever possible, otherwise at constant factor cost, Data available only to 1967 for Jordan and Nigeria, 1968 for Trinidad and Tobago, Iran, Pakistan, Sudan, and Bulgaria.

Col 6: Annual Average Growth Rate of Population 1951–69.

Col 7: Increase in per capita GNP 1951–69.

Cols. 8 and 9: Investment Ratios, averages of 1950 and 1955 and of 1960, 1965, 1968 and 1969, respectively.

Cols. 10 and *11:* Balance of Payments Current Deficit 1951–69 and 1961–68.

Col 12: Ratios for each period were obtained by dividing the gross

C–Strategy: Moderate Capital Inflow

9.5	3.0	.078	B	5.4	7.9	.93	7.4	.90	3.9	Mexico
13.5	2.7	.022	B	4.5	7.6	.72	11.5	1.26	3.5	Turkey
12.3	4.1	.169	P	8.9	8.6	.95	7.5	1.02	2.5	Peru
16.0	2.8	.141	B	3.0	6.9	.71	8.5	.90	4.9	Philippines
24.3	2.5	.143	P	1.9	5.4	.58	15.0	1.13	2.7	Pakistan*
28.6	3.6	.215	P	4.5	9.0	.11	9.8	1.20	3.5	Costa Rica
n.a.	2.0	.093	B	1.2$	11.2	.41	14.8	.23	2.3	Singapore‡

D–Strategy: Low External Dependence

−0.1	3.0	.010	B	16.5	16.1	.91†	16.3	.92†	3.6	Japan
5.4	n.a.	.014	M	14.1	13.3	n.a.	10.0	n.a.	3.2	Yugoslavia
9.6	4.5	.066	B	7.4	14.0	1.06†	10.0	n.a.	3.1	Spain
n.a.	n.a.	.045	M	18.0	14.2	n.a.	17.0	n.a.	6.9	Bulgaria
3.9	2.8	084	B	0.4	6.6	1.02	7.8	.81	2.6	Brazil

addition to capital stock by the increase in GDP and the two ratios averaged. For several countries only one figure for Gross Marginal Capital-Output Ratio was available.

Col. 13: Primary Exports/GNP. Per cent primary of total value of exports, derived from *UN Yearbook of International Trade Statistics.* Primary exports were defined as Food (0), Unmanufactured tobacco leaf (121). Inedible (2 up to 266 Synthetic Fibers), Crude or partly refined oil (33), Natural gas (34.1), Oils and fats (4), Wild animals (941). Per cent exports of GDP from IBRD. Figures for Iran, Iraq, Trinidad and Tobago, and Venezuela revised to included refined petroleum and petroleum products.

Col. 14: M = manufacturing orientation, B = balanced, P = primary orientation, according to the deviation from the normal production of manufatured goods and primary products in exports.

Cols. 15 and 16: Annual Average Growth Rate of Exports of Goods and Services defined to exclude factor and transfer payments to and from abroad.

Cols. 17 and 19: Ratio of actual industrial and primary production to the normal level for a country of the same income a head and size.

Col. 18: Annual Average Growth Rate of Manufacturing Production 1951–69 from Table I, Col. 7. Generally computed from country indices of manufacturing production published by UN Statistical Office.

Col. 20: Annual Average Growth Rate of Primary Production 1950-69. Primary is defined as agriculture plus mining.

data can be compared in each group and conclusions drawn by the reader. The question can then be left open for further thinking.[7]

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CHAPTER SIX

A Case for Development Planning and Economic Policy

CONCEPT AND NEED FOR PLANNING

Since the Second World War, the search for methods of speedy economic development have given birth to a popular consensus that economic planning is a desirable measure of socio-economic policy for the developing countries. Until recently, it was claimed by some socialist economists that economic planning is not possible in the developing countries because of the fact that in these economies there exist "predominantly private-capitalistic, primitive productive mode, and semi-feudal economic relations."[1] But it has been proved that planning as a method of "conscious direction of the development process" is not only a necessity but the only safe method of "optimalization of use of resources" in order to attain "objectively determined aims and objectives" of the development of society.

Economic planning, as a method of economic development was originally devised in the Soviet Union. The rationale behind this was "proportionate and continuous growth of the national economy." As the experiment in planning pushed up the rate of growth of output, income and employment in the Soviet Union, it has come to be accepted by most developing countries as a measure of "raising the levels of income, and thereby improving the standards of living of the people." At the same time, failures of planning in the socialist countries in the first place, and in some of the developing countries, have disillusioned many planners, economists, statesmen, and policy-makers.

The development of the concept of planning as such has been

1. N.S. Kovalj, Planirovanie narodnoga khoziaestva USSR, Moskva, 1973 (A Text Book on Planning in the USSR, University Pub. House, Moscow).

under discussion for quite a long time. Planners, economists, politicians and many others have not been able for long to agree on the contents, aims, means, methods and instruments of planning, etc. (here we do not wish to go into the details on all these points, as it is a subject of consideration in a textbook on economic planning). After three decades of varying experiences in planning, most seem to agree that it is not a question of planning or no planning, but the form and extent of planning.

In economic literature two divergent theoretical approaches can be traced back. The traditional approach is reflected in the famous, so often quoted definition of planning by Dickinson [1] that it refers to "the making of major economic decisions...by the conscious decisions of a determinate authority, on the basis of comprehensive survey of the economy as a whole."[2]

The supporters of such an approach like Lange [2] and Dobb [3] feel that planning is characteristic of socialist economies and it is only possible to carry out in a centralized system of economic activity. On the other hand, a liberal approach is reflected in the works of Robbins [4], Meade [5], Myrdal [6], Tinbergen [7], Lewis [8], Rodan [9], and many others. They contend that planning is possible in capitalist or mixed economy through guiding, stimulating, and forecasting the market forces. Planning, in their opinion is supposed to provide basic guidelines to economic subjects on the basic trends of output, income, prices, etc., and rationing, control or regulation could be used, if needed. While the former approach has been tried with a certain degree of success in USSR and other East European Countries, the latter is being practised in the Netherlands, France and Yugoslavia. The former is referred in literature as "directive", "centralist", "authoritative" or "imperative" planning, while the latter is known as "inducement", "decentralized", "democratic", "indicative" or "feather-touch" planning.

A modern interpretation of the concept of planning in the context of development policy is reflected in some writings that consider it as "a scientific method of projecting the most desirable development goals in an economy over a future period of time." In fact, planning should be seen as conscious and deliberate action

2. H.D. Dickinson, Economics of Socialists, George Allen & Unwin, London, 1957, p. 4.

by the decision-makers to realize the objectively determined needs of the society. Such an objective requires a coordinated economic policy, and it is in this sense that the Yugoslav economists look at planning under the system of self-management. Sirotkovic-Mikic [10] considers economic planning as "an organized body of methods and means of economic policy to attain predetermined socio-economic goals."

Planning, as a method of stimulating economic development in the developing countries, is vigorously recommended on different grounds. Some of these could be mentioned here.

(a) It is argued that under conditions of underdevelopment there lacks a rational utilization of men and material resources. Any increase in the growth of output, income or employment requires optimalization of available resources. Planning could serve to such ends.

(b) Imperfection and failure of market mechanism is often claimed as a valid argument for planning of factors of production, manpower, goods and services produced. Planning is supposed to perform the distributive function also.

(c) The lack of market mechanism due to the deficient demand in developing countries as such, and the absence of Schumpeter's "dynamic risk taking entrepreneurs," implies that if the developing countries wish to carry out the development policy, an alternative mechanism must be created to enforce the predetermined goals. Planning sponsored by the government could accordingly fill the gap.

(d) In most developing countries, freed from the colonial rule, there exists feudalistic or capitalistic institutions like private property, landlordism, etc. which are symbols of the past exploitation. Among the people of these countries there is a natural urge to do away with the remanents of the old system, and planning could serve as a measure to solve such conflicting situations.

(e) Finally, truth being that the price mechanism, which exists in a rudimentary form in most of the developing countries, and the market forces are too weak to accomplish suitable structural changes in the economy, planning could become an effective measure for driving the development into a desired direction.

From the view point of development strategy, planning is a method of making it successful. Economic planning in its broadest sense stands for implementing carefully devised measures of eco-

nomic policy, the sole purpose of which is the attainment of desired development goals. In other words, planning is another name for economic policy both serving the single purpose. Considered from the point of economic system, one may say that the political ideology is an instrument of change in the existing order. Analogically, economic planning is an instrument to bring about changes in the economic structure, and economic policy a method of attaining economic development. It can be said that all the three aspects are intertwined, and need to be considered as a joint effort to tackle the tasks of development in the developing countries.

Since, in most countries, if the development process is to be carried out according to the defined strategies and social goals by expanding the total production of output of goods and services, with the limited and available men and material means, in such a way that higher per capita incomes and standard of living is generated, planning of economic development and corresponding economic policy is an absolute necessity. The forms, types, methods and agents of planning, and choice of particular instruments of economic policy is a subject of decision by the countries concerned depending upon the needs and objectives determined by the society.

Economic planning is criticized also at times. The basic argument of planning to be rejected as an instrument of development policy is based on the fact that the desired goals by methods of control or regulation are likely to be fairly difficult and inefficient in an underdeveloped economy. It is also contended that the remedies for major defects in the economy can be found in the imperfections of market mechanism and undesirable social effects, which are the luxuries that the developing countries cannot afford to indulge in, if they are really serious about attaining higher rates of growth. It is for such reasons that Johnson [11] thinks that there are likely to be conflicts between rapid growth and an equitable distribution, if planning is adopted as an instrument of development.

In response to the clamour for planning in the developing countries, there are those who defend the market mechanism for the purpose of allocation of resources, on "classical" grounds. It is often argued that if the market does not function properly, serving the interest of the society, then there is a strong case for

making it more perfect, and improving its functioning, than there is for development planning. Market imperfections and price distortions are not in themselves arguments for planning but rather for ensuring that the price mechanism functions more effectively. Moreover, the choice for the vast majority is not between a complete laissez faire and total state planning of the means of production, but rather in a combination of the two. It is the question of degree of association of one with other that the developing countries need to solve. Planning today has not come to be accepted at the expense of market and price mechanism, but as an equal partner in the economic system.

DEVELOPMENT PLANS AND PLANNING MODELS

Planning in essence is carried out through the development plans, and the development plan being an ideal way for the planners to set out the development objectives and to demonstrate initiative in tackling the developing problems of the country, serve as an instrument to step up the national development effort, as well as a catalyst for foreign aid and international investments. Depending upon an over all strategy of economic development, aims and objectives of planning, and upon the over all economic policy of a country the development plan may vary in its content and magnitude, from a simple statement of aims to every detailed proposals for action with input-output analysis of each sector.

In planning, anything more than the simple statement of aims means economic model building of various types. Very often, as a preliminary step, and sometimes the only step, taken is the projection of a consistent set of national income estimates for future. For this purpose, sometimes simple growth models are constructed that project the future income growth at a definite rate over a period of time. Such national income growth projection models can further be detailed and split into the projections of consumption, investment, and saving or export-import extrapolations. In all such growth models, estimates of capital-output ratios are made, and the labour-productivity ratio incorporated.

Macro models of Harrod-Domar type—a reference to which has already been made—are also commonly used in planning of national economies. The purpose of such models is to determine the

effects of the relation of saving-consumption and investment on the growth rate of output.

Sectoral models pretend to isolate the major sectors of an economy and define the structural proportions between capital and consumption goods sector and the rest of economy (like Feldman-Mahalanobis or our own type model). The approach to the sectoral models is further elaborated in multi-sectoral models. These models or the best known inter-industry models aim at optimalization of set goals and policies. Such models (dual or multi-sectoral) of economic planning need projecting output levels, investment requirements, allocation of resources by sectors of production, consumption pattern, etc. that make these models highly complicated. The problem of coordination and of maintaining consistency in the sectoral output can be solved, either through the statistical approach of determination of these relations by regression techniques, or by the popularly known output-input or inter-industry models. Such inter-industry input-output model can be constructed for any economy with *n* number of sectors depending, of course, upon the statistical-documentational base. Such models serve two-fold purpose. In the first place, these enable planners to reach decisions on how to attain the set ends, highlighting the strategic choices open to the policy-makers in their knowledge that not all desirable goals are attainable simultaneously. Only, through the understanding of such relationships between different parts of the economy and knowledge of parameters of economic system, it is possible to reach consistent decisions in economic policy. Secondly, such models can with a very high degree of precision project the economic trends over time.

According to the purpose served the models may sometimes be classed as policy models. The essence of policy models lies in the fact that certain set of objectives is specified and a model is then used to determine the most appropriate measures to achieve the objective within the given limits of constraints. In most development plans the target is always to attain a certain planned growth rate of output or per capita income, or growth of consumption. Given the time factor in the plan and the objective function, the optimum strategy can be worked out from the initial conditions of growth. It must be, however, added that while planning development, the planners and policy-makers in the developing countries are fairly susceptible to project the targets based on aspirations,

desires and the pressure of current needs, rather than the potentialities or availability of resources, thus leaving the plans unrealized. First step in the formulation of policy models, generally, is the construction of aggregate models (incorporating, if need be, sectoral or inter-industry model). The reliability of policy model shal depend upon the accuracy of the structural proportion estimates of the national economy. The structural relations serve as constraints on the instrumental variables which policy-makers must accept as given. These relations offer the answers to practically all basic questions that planners need to know. As a next step the instrumental variables may need to be specified. These are the variables that the planners intend to influence upon, so as to attain specified objectives within the laid down constraints (e.g. if the basic objective is a higher rate of growth, an obvious instrumental variable is the investment-saving-income relationship, and that can be influenced by tax policy, inflation rate, foreign aid, etc.). If the structural relationship is given and constraints outlined, a solution to policy model will give a set of values for the instrumental variables that satisfies the structural equations in the models. Such policy models ask for programming methods. It must be mentioned here that the planned solutions must be flexible and the rigid solutions, if at all, should not last over long time period.

The major task of the development strategy is to ensure that the resources shall be forthcoming to meet the development goals and resources allocated efficiently. Programming techniques can provide a simultaneous solution to the problem of optimum allocation of resources, efficiency in their use and balance between various economic activities. Theoretically, it can offer the best possible solutions to rational decision-making in planning. The linear, nonlinear, or multi-criterial programming techniques can help the developing countries in choosing between various techniques for making same product, deciding the best combination of output with given techniques and factor endowments; determining the efficiency of producing the commodities at home or importing from abroad; or to determine the most efficient spatial location of activities, etc All these uses can be combined into a standard form of programming problem by determining the objective functions to be maximized, the constraints that must not be violated, under the given non-negativity conditions.

Sometimes separate decision models have to be constructed

because of the computational limitations. The basic macro model based on the relationship between income, consumption, investment, employment, foreign trade, etc. may sometimes lend the planners into difficulty by projecting serious sectoral imbalances—particularly in cases where sectoral models play a dominant role. This is where the decision models come into focus.

In any case, in planning for development all the stated types of models, according to the needs of projection, forecasting, optimalization and allocation of resources, etc. may be used.

ECONOMIC POLICY MEASURES

As development refers mainly to the higher level of material and social well-being of the people, the development policy may be defined as those measures of economic policy aimed at regulating, restricting, prohibiting, controlling, and stimulating the socio-economic activity in a country. In the context of the developing countries, it refers to the policy aimed at realization of predetermined set of ends, programmes and plans. Since most of these countries do use planning of some degree, the development policy of these countries may be defined as the planning policy. In fact, in modern economic theory economic planning in itself has come to be recognized as an integrated body of policy measures.

Policy measures may be defined as various instruments known in economics and categorized as monetary, fiscal, budgetary, administrative and financial. These measures may also be classified as planning or market measures. While market measures refer to the measures affecting the price, demand or supply, the planning measures may be administrative, suggestive or stimulative.

The agents of economic policy in any country may differ according to the over all social economic system. In centrally controlled socialist societies, the agents of development policy are the state institutions. On the other hand, in capitalist democracies it is either the state administration or large capitalist institutions maneuvering decisions through state institutions. In highly decentralized socialist or capitalist societies, or even mixed economies, the agents may vary from enterprise to local self-governments or the government institutions at state or federal levels.

The policy measures and their application at certain times is in most cases suggested by experts, political workers, major interest

groups, or government administrative bodies. Their acceptance is enforced by legislative bodies, executives, or special government agencies at various levels. The measures of economic policy may be short term measures, or medium term or even long term measures. They may be in force once for all or may be repeated at regular intervals, or may be even lasting in nature. Such measures of economic policy may be of local, republican, federal, or of even international character. They may be brought by force of law, monetary and financial stimulative measures, or by advice.

In context of the developing countries, the development policy refers to the policy of maximization of output or incomes per head, and provision of a better standard of living to its people. As the aim of development plan and of development policy coincides with each other, the policy measures are subservient to the development plan. Those who are responsible for formulation, implementation and evaluation of the plan are also involved in evolving, applying and observing the measures of economic policy. In the developing countries, due to the lack of education, low level of technological development, backward and traditional socio-economic background, and also due to the lack of social and economic entrepreneurship, the state, or better say the government, has to play the leading role in the formulation of development planning and policy. Experience has shown that in most countries the plans are drawn, initiated and completed by the government. Only at later stages the people come to be associated in the planning process. Similarly, the economic policy has been in the hands of the state and people had very little to do with its formulation and execution. Most experiences in planning show that the process of development planning in countries of Asia and Africa have been copies of centrally planned economies of Europe, and centralization has been the characteristic feature of plans in all its stages. The resulting development policy, in order to ensure the success of planned goals had, too, been highly centralized.

Due to the highly complicated nature of the development problem that exists in most countries, on one hand, and very simple models of centralized planning on the other, have invariably resulted in unorthodox economic policy. It should have normally produced expected results as in the developed countries, but has almost negative effects in practice.

The developing countries, from the theoretical point of view, can

make a very wide choice of instruments of economic policy in the field of monetary-credit, fiscal, banking and trade policy. According to the extent of applications (specific to these policy instruments) and according to the mode of operation (through prices or quantities) of the measures, the countries can have a wide choice to achieve the desired goals. Each choice will have different effects, and it is for the planners and agents of development policy to make the choice within the over all strategy of development. Relative merits and demerits of each instrument should be the deciding criteria. For lower levels of development specific and quantitative measures might prove useful, whereas at higher levels of development a general and price instrument might be effective.

In context of developing countries, certain aspects of development policy occupy central place in all theoretical and practical discussions. These are aspects such as development policy in the field of agriculture and industry, policy of trade, population and employment policy, and development financing policy. While discussing the strategy questions we have attempted to embrace certain aspects of all the above mentioned problems except the problem of raising resources for development. In the current discussion we shall embrace the problem of resources for development in particular and a brief mention of the international economic policy will be made. Economic policy, in the existing literature, is supposed to include monetary, budgetary, exhortatory, physical, price and income, and other policy measures.

Monetary policy is defined as the "battery of techniques" the common feature of which is that they are operated by the central banks. The monetary policy operates through either the total level of spending or may operate on particular components of total spending. Since, the central banks do have control over the availability of cash, bank deposits, credits, etc. it alters the volume of liquidity in the economy by buying or selling the securities, and so the public cash holdings. Through cash-liquidity ratio the volume of credit may be regulated. The basic purpose of the monetary policy is that through the availability of cash and credit it can influence total spending and that in consequence the restriction of total spending, for example, may limit both the inflationary pressure and the growth of imports; or alternatively expansion of aggregate spending may alleviate unemployment and promote economic growth. These latter objectives may also be served by

expanding or restraining certain forms of spending so that aggregate spending remains constant. However, the monetary policy is concerned not only with the money supply but also with the cost of credit, i.e. current rate of interest in the economy. The central banks can also exercise influence over the general level of interest rates by changing the bank rate.

The budgetary measures are the instruments in the hands of exchequer to be used in the national budget. As regulatory power in the government's hand, certain indirect taxes may be used. Through budgetary policy the governmant can alter the volume of spending power in the public hands by raising more taxes than the governmental spending during the year. A budget surplus diminishes spending and a deficit can do the reverse. The form of taxes and subsidies is another measure of budgetary policy. Taxes or subsidies on goods and services will alter their prices and thus influence the pattern of spending and its level. A wide range of consequences is possible. They might affect the total value of imports by changing manner in which people spend their money, the size of exports by changing the attractiveness of the domestic market to products, employment, or the prosperity of industries relevant to economic growth. Taxes and subsidies on incomes are likely to influence the level of aggregate spending more than upon its structure. The form of such measures, i.e. the progressive or degressive character may lead to some distributive aspect of income and thus in the pattern of spending Taxes on goods have most of their effect on the components of total spending and those on income have their impact largely on the levels of spending. Another budgetary measure is the nature of the government expenditure arising from the tax revenue. Different activities will be stimulated according to the manner in which the government spends the money. Its effects may be reflected on employment, exports, imports and economic growth.

Exhortatory policy measures lie in governmental effort to influence economic activity by propaganda and the pressure of public opinion. By changing the community's knowledge, or attitude it hopes to have some effect on the performance of economy.

The physical policy measures may include the use of legislative measures to achieve particular economic patterns. Examples of such policy are price control as an anti-inflationary device, and rationing which can influence the consumption pattern and in turn, the

production pattern or possibly the foreign trade pattern. Exchange control rules may be used to protect the exchange rates.

Price and income policy refers to the measures to control the inflation and to promote economic growth. Other policy measures may include the control of activities of firms (industrial or monopoly control policy) in public interest; provision of state finances in order to promote a particular industry or kind of production; and direct government involvement in production of certain specific goods and services (atomic energy, civil aviation, etc.).

All the above mentioned measures constitute an organized set of policy measures, that the planning agency or the government may use to achieve the determined development goals and objectives in a developing economy. We may reproduce here from Chenery [12] a systematic review of the relative merits and defects of policy instruments available to the developing countries which is self-explaining and practically needs no special comment (Table VI. 1).

ECONOMIC POLICY AND DEVELOPMENT FINANCE

Problem of development finance is the problem of capital accumulation and is the crux of entire development process. The real capital formation from domestic resources involves an increase in the volume of saving and the act of investment. In the absence of capital flow from abroad, the only possible way to raise resources for development, is by curtailing the present consumption. In the early stages of development in developing countries, savings may not be a major barrier in capital accumulation, but rather unwillingness on the part of the people to invest. The unwillingness to invest may be due to either cultural attitudes, or bottlenecks in the production system which do not make it feasible to invest. The alternative to overcome these problems is through international trade and foreign borrowings If there exists the willingness to invest, the problem of savings in the economy is that of stimulation of the same by deliberate monetary and fiscal policy measures, including deficit financing and inflation.

As far the domestic savings is concerned, three broad types may be distinguished: voluntary, involuntary, and savings generated through policies to increase output in situations of unemployed or underemployed resources. Voluntary savings are those arising out of voluntary reductions in consumption from current income.

TABLE VI. 1. CLASSIFICATION OF POLICY INSTRUMENTS

General

	Price variables		Quantity variables	
Area of policy	*Instrument*	*Variables affected**	*Instrument*	*Variables affected*
Monetary	interest rate	(1) level of investment (2) cost of production	open market operations	(1) money supply (2) prices
Fiscal	personal income tax	(1) consumption and saving	Government expenditure	(1) national income (2) price level
	corporate income tax	(1) profits (2) investment		
Foreign trade	exchange rate general tariff level	(1) cost of imports (2) price of exports (3) balance of payments	exchange auctions	exchange rates
Foreign investment	taxes on foreign profits	level of foreign investment	foreign loans and grants	(1) investment resources (2) exchange supply
Consumption	general sales tax	consumption	social insurance, relief, other transfers	(1) consumption (2) income distribution
Labour	wage rates	(1) labour cost (2) profits and investment (3) labour income	emigration and immigration	labour supply

	Production	*taxes and subsidies*	*(1) profits and production*	*Government production*	*level of production*
		price control	(2) investment	Government research and technical assistance	cost of production
	Investment	interest rates	(1) profits	Government investment	level of investment
		tax exemptions	(2) investment by sector	capital rationing	
				restrictions on entry	(1) prices and profits (2) level of investment
Specific	Consumption	specific sales taxes	consumption by commodity	Government services (health, education)	(1) consumption (2) income distribution
	Trade	export subsidies	(1) price to consumer (2) profits on domestic production	import quotas and prohibitions	(1) level of imports (2) domestic prices
		tariffs	(1) profits and investment	exchange controls	
	Labour	wage subsidy	(1) labour cost and use (2) profits and investment	labour training	supply of skilled labour
	Natural resources	taxes and subsidies	(1) cost of production (2) rate of exploitation	surveys, auxiliary investment, etc.	rate of development

*All taxes affect Government revenue and saving in addition to the variables cited.

SOURCE: H. B. Chenery, Development Policies and Programmes, Economic Bulletin ıor Latin America, Vol. 3. No. 1, March 1958.

Involuntary savings are those created through involuntary reductions in consumption. All taxes and schemes of compulsory lending to the government are traditional measures of involuntary savings. In addition, consumers capacity to consume is reduced by the process of inflation (rising prices). For a variety of reasons, inflation is likely to be a natural concomitant of development, but it can also be deliberately induced by policy measures such as monetary expansion and deficit finance. Policy measures such as deficit finance at times can generate savings by activating unemployed or underemployed resources. Domestic savings can be supplemented from abroad. Private foreign investment is a direct source of capital accumulation.

Borrowings from abroad provides resources for investment by enabling imports to exceed exports, which in national accounts shows up as investment in excess of domestic savings Foreign assistance may be from multilateral of bilateral sources in different forms like loans at commercial rates of interest, outright gifts of goods and technical assistance. An improvement in country's terms of trade can provide additional resources for investment if the entire increase in real income is not consumed.

The level of voluntary savings and its ratio to national income depend on several economic and non-economic factors. Economic factors determine the ability to save while willingness to save depends on non-economic factors. The main determinant of the former is the level of per capita income, while the latter will depend on such factors as existence or reliable banking institutions, interest rates, social attitudes and the like. However, the fact remains that in developing countries, the capacity to save is limited by desperately low level of per capita income. The task of capital formation in underdeveloped conditions is, therefore, of encouraging the production on one hand, particularly in those sectors where it is low. This brings us back to the overriding importance of encouraging productivity growth in the dominant agricultural sector through measures that require little investment. On the other hand, it is essential to encourage savings among those with ability to save. The encouragement for savings must come from the government or planning agency. If it fails to generate an increase in surplus by voluntary means that it can, and is in the interest of over all development, then it must extract the surplus income involuntarily and use in productive purposes. This is where fiscal and monetary policy becomes important.

Involuntary saving is saving undertaken by the government on society's behalf, largely through taxation, deficit finance and induced inflation. The existing ratio of total tax to national income is typically low in most developing countries. Therefore, very logically economists would favour an increase in the tax burden as a measure to increase government savings. It is only when the additional taxes prevent incomes to be consumed or gone into non-productive activities, government can hope to raise the level of savings. If additional tax is imposed on rich class, they might decide to cut voluntary savings to meet the new burden rather than cutting down unproductive expenses. In this case the financing of investment through taxation is likely to create inflation through redistribution of income with very low and high consumption groups. The most successful but least desirable tax policy will be that of levying tax on poor. The solution will have to be found between economic objectives and the social desirableness. On the other hand, indirect taxes are the most popularly levied taxes in underdeveloped economies as they are easy to realize, difficult to evade, but they hardly hit the poor section. The tax policy should therefore, be such as to be able to stimulate production in deficient sectors. These should be levied primarily on agricultural sector. With the desire of the rich for non-productive and luxury consumption and government's desire for increasing the savings, progressive consumption taxes can perform dual purpose of discouraging such consumption and luxury and the high import content goods can raise the tax revenues. However, no universal tax policy can be prescribed to suit all countries. The efficiency of different taxes to raise the level of domestic savings without offending equity and discouraging growth will vary from country to country subject to their economic and social circumstances.

The justification for deficit finance in developing countries, as in any other country, must be the existence of unemployed resources. Deficit financing is likely to be inflationary in the short run. But, if savings generated by inflation are employed in gearing up the output, inflationary tendencies may vanish in the long run. The only danger is that deficit finance in the developing countries may not proceed with required caution and inflation might soon get out of control. Experience, nevertheless, proves that countries very easily resort to deficit financing measures and often find themselves into uncontrolled "inflationary gap," examples of which are

not difficult to cite. An increase in savings brought about by the rising prices is often referred as "forced" saving. With increasing prices the consumers cannot maintain the level of standard of real expenditure, real consumption goes down and resources are forcibly released for investment. The only way that savings can be increased through rising prices is by redistribution of incomes from groups with high propensity to consume to groups with lower propensities to consume. The importance of inflation for capital formation rests on its ability to shift real income from the poor to the rich. This type of capital formation shall be at very high social costs and most undesirable. Whether or not inflation provides an additional source of real investment, is yet to be proved. A certain amount of inflation is inevitable in any country. As prices increase in shortage sectors, they transmit themselves into other sectors too, and the economy is invariably caught in price spiral. And the faster any country attempts to grow to achieve its target rate of the growth of per capita income, the more severe the inflation becomes. In Latin America, which has experienced most serious inflation in recent decades, debate has developed between "structuralists" and the "monetarists". Structuralists argue that stability of prices can be achieved through selective and managed policies for economic growth. It is claimed that basic forces of inflation are structural in nature, and it is a supply phenomenon. It can be remedied by monetary and fiscal measures at the expense of under-utilizattion of resources. In support of their case they point to the characteristic features of developing countries, e.g. rapid structural changes, the supply inelasticities. The monetarists, on the other hand, argue that the supply bottlenecks are created by price control. They think that the process of repressing inflation (which is fairly typical in Latin America), instead of tackling the causes of inflation, creates situations that feed the inflation. But in the first place, inflation is caused by excess demand due to monetary expansion, and the monetarist deny the usefulness of inflation to development.

In an open economy domestic savings can be supplemented by many kinds of external assistance, both bilateral and multilateral. In national income accounting an excess of investment sources can be attained by a surplus of imports over exports. An import surplus financed by foreign borrowing can supplement domestic savings directly, or indirectly by providing foreign exchange, to buy imports which could be capital goods or substitute for domestically

produced consumer goods. Borrowings in form of interest bearing loans from international institutions or from world capital market is one of the modes of foreign assistance open to most of the countries. It involves debt servicing problems which do not arise with pure aid, or private investments. How much is it advisable for developing countries to borrow, given the interest and depreciation, is difficult to answer. However, a good deal of concern has been expressed over the amount of borrowings and future strains on the balance of payments that this implies. Already some countries (e.g. Zaire) have reached the stage where outflow of funds to service old debts is over 50 percent of new foreign assistance and offsets a substantial proportion of total foreign exchange earnings. In case of many countries today, however, there is little evidence that they have the ability to pay off their past indebtedness and cut down on net resources inflows. The need for resources is acute and ever growing, indebtedness is mounting as ever, because an export-import gap has replaced savings-investments gap. Most countries find it difficult to translate domestic savings into activities which may ease shortage of foreign exchange. This is why there is all the more cry for more trade and not aid. This is why the problem of debt servicing becomes an important issue in international economic policy.

International assistance to developing countries consists of private foreign investments, bilateral grants, loans and technical assistance, and multilateral assistance of various types channeled through UN, World Bank, IDA and IFC. Unconditional grants are the purest forms of aid but only a small percentage of total resources really flow through this type of aid. The major part of assistance consists of loan facilities with small subsidy element. Private foreign investments in less developed countries represent only a very small amount of the total world private investments. Most such investments take place in the developed world itself. Due to political instability, legal facilities to remit abroad the profits and dividends, fear of nationalization, general insecurity are some of the reasons for which private investments have lost value as a source of capital formation in developing countries. Technical assistance is the most favoured source of financing development projects in developing countries, and this is why the World Bank and its institutions have greatly relied on such help.

INTERNATIONAL ECONOMIC POLICY

In context of the developing countries, measures of international development policy enjoy great significance. Economists suggest increased role of the developed countries in realization of development goals set by the developing countries. Such measures have become still more popular in view of the increased world poverty and effort of United Nations and its associated bodies to help ease it. A consciousness for development of the poor nations of the world among the highly developed countries, within the framework of NIEO, have also resulted in organized help by private, corporate or government institutions.

The measures or instruments of international economic policy may be grouped as pertaining to finance, international trade, regional economic cooperation, scientific and technical aid, direct aid in the form of commodities, educational aid and measures of health care.

These measures of international development policy may be bilateral, multilateral, or of international character. These can be in the form of either advisory function or concrete aid, on short, medium and long term basis. The ethics of international cooperation for development is based on various considerations such as humanitarian, self-interest of the developed nations, purely economic, political-strategic, and sometimes as a matter of right.

Most of the measures of international development policy, after the war have been increasingly applied under the patronage of the United Nations and its affiliated bodies. These measures have become part and parcel of economic policy of the world community. Primarily the measures have been accepted under the First and Second Development Decades of the UN. While under first decade they were recognized as merely desirable but in the second more or less obligatory on the part of developed countries in the form of 1% contribution of their gross national product for developing the poor nations. Experience has shown that the progress in this direction has been slow. Developed countries have failed to meet the 1% target. Further, all the measures have been restricted mostly to financial aid, credits and grants. In the field of technical and scientific cooperation little success has been attained as developed countries are reluctant to share the science and technology. In the field of foreign trade, there is resistance for reduction

of duties and tarrifs, and even restriction on imports from developing countries. Examples are not difficult to find in OECD countries. Regional economic cooperation has proved to be fairly ineffective as in case of common market in Latin America and Africa. Only the educational and health care measures have proved to be highly successful due to the efforts of UNESCO, UNICEF, WHO and FAO.

From the development planning policy point of view there is an increasing need for multinational planning for development within the international economy. The objective of such planning should be to realize the potential for more coordination of policies among the developing countries among themselves which is one of the aims of NEIO. This is necessary for avoidance of competition among them. There is also a need for mutual cooperation, regional integration, mutual finance, exchange of know-how, and realization of development projects on multinational level that are impossible to realize for particular countries. Beyond regional planning it is also desirable to have more international planning of trade and aid policies. Since there does not exist world public sector, only an international economic policy planning will be needed. Such an intensified action may make a sizable contribution to new world economic order at least in matters of economic policy, which is the subject of discussion in Chapter VIII of this book.

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CHAPTER SEVEN

Dimensions of Development

The concept of economic development can hardly be defined to universal satisfaction. However, as is commonly defined and accepted in our analysis, in context of the developing countries, it refers to economic growth accompanied with improvements in the living conditions of the people. It is now widely recognized that development means a transformation of economic and social structure, including changes in production and demand, as well as improvements in income distribution and employment. It means creating a more diversified economy. Moreover, the actual pattern of structural transformation will tend to vary according to geography, demographic structure, and other resources available. The strategy of development as adopted may accordingly be different, and so the success of a particular type of development strategy.

Three decades of economic development of the developing countries have been marked by various characteristics. Time and again the research studies of the World Bank have been pointing at certain tendencies of economic growth and development. The recent study by Chenery et al. [1], once again points out to the hard fact that 2/3rd of the world's population now lives amidst worst poverty. Some 40 percent of the people in the developing countries below the "poverty line" live under conditions of "absolute poverty" manifested by mass disease, illiteracy, malnutrition and squalor. This certainly is not the state of economic development that humanity wishes to attain. Although, the postwar record of economic growth in many developing countries has been fairly impressive, and is characterized by relatively high rates of economic growth measured in terms of national income, but the benefits accruing from increased incomes have been limited to a very small section of the people in those countries. Not only this, the gap between the developed and the developing countries is constantly widening.

Here, in the following pages we shall examine some of these aspects of development problems of the developing countries. However, for getting a glimpse of the actual situation existing in the developing countries, we have to rely on the statistics, though it may not provide a suitable answer to the basic questions, that we have posed earlier. It may help to understand some of the basic questions pertaining to the development problem and the magnitude of the task that awaits mankind in future

Any survey into the state of development in the developing countries customarily begins with a comparative cross-country analysis of the national income data. In most writings, the developing countries are referred as those having low per capita national product, and thus, not rarely, economists have been inclined to use this measure as a simple method of focussing attention on the poverty of those nations by pointing out at the low level of per capita output and incomes.

However, it must be emphasized here that the GNP (or GDP as the case may be) is an aggregate category of estimation of the real product of any country, and could only serve as a coarse method of evaluating the real level of incomes and living standards in a country. Since no final agreement has been reached among the economists as to the methodology of estimation of real level of economic development in a country, the absence of such a method leaves us with no choice but to rely on such estimations as the national income approach might offer. The problem of measurement of national income has long been a subject of discussion, and in case of the developing countries it has been of far more controversy. As this approach only partially reflects on the social and economic conditions in any country, any exclusive reliance on it is bound to be faulty and misleading. It is for this reason that there have been alternative approaches to the problem. But before discussing these one may mention that the most common difficulty that has repeatedy been pointed out is the commonly used yardstick of measurement of GNP—the US dollar. Most economists, and among them Myint [2], also and the official documents of the UN recognize the difficulty that arises due to its acceptance as a measure of the level of development.[1]

1. H. Myint very rightly concludes that the per capita gross national product figures of a developing country is rather a crude index of its poverty both for

The problem of measurement of the level of development, due to the valid criticism of the GNP approach, has been under study for some time by noted economists, sociologists and others, e.g.

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conceptual and statistical reasons. For him, conceptually, the per capita living standard depends upon the level of per capita consumption and not on per capita income as such. Further, the poverty of a country is more faithfully reflected by representative standard of living among great masses of people This may well be below the arithmetic average obtained by national product or income divided by the population. According to Myint, statistically speaking, national income and population statistics of developing countries are still imperfect, and there are number of technical difficulties in trying to compare the national income of developing countries on a uniform basis, the margin of error is considerable. (H. Myint, The Economics of Developing Countries, London, 1977, p. 8)

Perhaps, the most serious difficulty of measurement of per capita incomes is that of translating the GNP into the US dollars. The UN documents refer to the problem by stating that, "in this connection it is understandable that improvement in the quality of estimates of national product has been generally more difficult and slower in the less developed countries than more widely industrialized countries of the world where as a rule adequate statistical systems have been evolved over the years. A problem of particular importance confronting the less developed countries in estimating their national product arises from the existence of substantial non-materialized economy. Where only a part of total output of goods and services of a country is traded at the market, it is necessary for national income purposes to estimate that part which is produced outside this sphere. This area of estimation is indeed subject to a wide margin of error since the extent of such activities is known in very approximate manner only...The use of exchange rate for expressing estimates of national product in a common currency unit is subject to serious shortcomings, both theoretical and statistical...The fact is that this method over-simplifies a complex problem of evaluating the total output of goods and services of different countries into a common currency. It is contended that approximately correct results can be obtained by this method only where there exists an equivalence between prevailing exchange rates and relationships of international prices. This equivalence is unlikely to be achieved for most countries." (UN, Per-Capita National Product of Fifty Five Countries: 1952–1954, Statistical Papers, Series E, No. 4, New York, 1957, p. 4)

Recognizing this difficulty the UN has attempted to improve its estimates by using other conversion rates For the European countries, in 1956, a systematic attempt was made by OECD experts M. Gilbert and associates, to improve the national income methodology. Their method used relative price weight for groups of commmodities (basket of good) in various countries. The result was a reduction in discrepencies in per capita comparison of incomes of USA and other countries. Lately, a similar procedure is being ado pted for the developing countries.

Adelman and Morris [3], Beckerman and Bacon [4], Haribson and Maruhnic [5], Rodan [6] and many others, and even the UN [7]. A great deal of attention has been paid to the problem of constructing a system of universal indicators of development.[2] A list of non-monetary and social indicators has been prepared, that could be used to evaluate the level of development while making international comparisons.

While making international comparisons,it is customary to compare the developing countries with the developed countries, with the object of showing the difference in the levels of income and standard of living. Although, the system of development indicators, has been prepared and accepted by the UN agencies, yet the reliance is still, primarily, on national income statistics, for there are a number of difficulties in the assessment of most indicators. Meanwhile, in international comparisons we may sometimes arrive at some statistically absurd results. Therefore, only lately comparisons are being made within the same income groups,[3] although the limits are arbitratily fixed. Such intra-group comparison gives a slightly realistic picture due to the relative homogeneity of the economic conditions that exists in countries belonging to the group. Although, such homogeneity in conditions of growth could also be questioned (India and Mozambique, for example, have the same level of per capita incomes, but differ in per capita productive capacity altogether).

Statistical data compiled from the World Bank sources, on some indicators of development, as shown in Table VII. 1, give a brief picture of the world development situation as a whole, as well as within the classified income groups.

2. For a very systematic treatment of the subject refer to the article of Nancy Baster, Development Indicators: An Introduction, published in a special issue of Economic Development Journal, No. 2. London, 1972. The article deals with three different but overlapping approaches to the definition of indicators. The three approaches relates to the indicators used in theoretical models of development, the use of indicators in empirical studies, and the one used for policy and planning. Baster emphasizes the need of integration of economic, social and political variables, and the identification of systematic relations between them depending upon the progress along the three dimensions.

3. The World Bank Report, classifies all the countries of the world, according to the per capita GNP into low income (LIC), middle income (MIC), industrialized countries (IC), capital surplus oil exporting economies (CSOE) and centrally planned economies (CPE).

A comparison of 1978 per capita GNP in US dollars shows a very wide gap among the nations. The average per capita product of LICs compared to MICs shows a difference of 1:6, and with that of ICs a gap of 1:40. The gap between MICs and ICs is almost the same as between MICs and LICs group. The difference between the lowest and highest per capita GNP (Bangladesh and Lao PDR against Kuwait) is almost 165 times. While the per capita GNP in all thirty-eight countries within the LIC group is below $360, lowest being at $90, the range of MIC is 390 to 3500 US dollars. The per capita gross national product in eighteen developed countries is lowest in Ireland ($3470) and highest in Switzerland ($12,000). Among the centrally planned economies the per capita product ranges between $290 to $5710 (China and GDR respectively). However, such comparison is not free from the shortcoming that the value of GNP in the developing countries is not realistic and by all standards it is underestimated.[4] Nonetheless, even if we recognize the fact and make due allowance for underestimation, the corrected figures of the GNP per capita remain low.

It is for this very reason, that another line of approach is frequently adopted. To understand the differences in per capita output, the focus of attention is generally shifted to the rate of growth of GNP. The fact that the developing countries have lower per capita incomes, need not necessarily mean that they also have a lower rate of growth, for the purpose of international comparison, as is used by many writers, is also widely criticized. According to Myint [2] the error might arise due to "widely varying degrees of inflation and import control, so that comparisons made on the basis of the fixed official rates of exchange do not give a true comparison of the purchasing powers of national currency units within their respective countries. When estimating the rate of growth in real incomes . . . an analogous source of error arises: first from changes in purchasing power of the money during that period which in

4. M.F. Millikan suggests that the real incomes of Asian countries in 1950 (excluding middle-east countries) amounted to $ 58 per head, converted at the appropriate rate of exchange; the real level after elimination for the bias involved in differences in prices of non-traded goods and services was $195. For Africa the estimated figures were, respectively, 48 and 177 per head. (Hearings. Foreign Economic Policy, 84th Congress, the 1st Session, pp. 21 28).

TABLE VII 1. BASIC DEVELOPMENT INDICATORS

	Population (millions) mid-1978	*Average annual growth of population (%)*		*Crude birth rate per thousand population*		*Crude death rate per thousand population*		*Adult literacy rate (%)*	*Life expectancy at birth (%) years 1978*
		1960–70	*1970–78*	*1960*	*1978*	*1960*			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Low-income countries	1,293 9	2.5	2.2	48	39	24	15	38	50
1. Kampuchea, Dem.	8.4	—	—	—	—	—	—	—	—
2. Bangladesh	84.7	2.5	2.7	51	46	25	18	26	47
3. Lao PDR	3.3	2.2	1.3	44	45	23	22	—	42
4. Bhutan	1.2	2.0	2.1	46	44	28	23	—	41
5. Ethiopia	31.0	2.4	2.5	51	49	28	25	10	39
6. Mali	6.3	2.4	2.5	50	49	27	22	10	42
7. Nepal	13.6	2.0	2.2	46	45	29	21	19	43
8. Somalia	3.7	2.4	2.3	57	48	29	20	60	43
9. Burundi	4.5	2.4	2.0	48	47	27	20	25	45
10. Chad	4.3	1.8	2.2	46	44	29	21	15	43
11. Mozambique	9.9	2.2	2.5	46	46	26	19	—	46
12, Burma	32.2	2.2	2.2	43	39	22	14	67	53
13. Upper Volta	5.6	1.6	1.6	49	48	27	22	5	42
14. Viet Nam	51.7	3.1	2.9	47	37	21	9	87	62
15. India	643.9	2.5	2.0	43	35	21	14	36	51
16. Malawi	5.7	2.8	2.9	53	52	27	20	25	46
17. Rwanda	4.5	2.6	2.9	51	51	27	19	23	46
18. Sri Lanka	14.3	2.4	1.7	36	26	9	6	78	69
19. Guinea	5.1	2.8	2.9	47	46	30	21	—	43
20. Sierra Leone	3.3	2.2	2.5	47	46	27	19	15	46
21. Zaire	26.8	2.0	2.7	48	46	24	19	15	46
22. Niger	5.0	3.3	2.8	52	51	27	22	8	42
23. Benin	3.3	2.6	2.8	51	49	27	19	11	46
24. Pakistan	77.3	2.8	3.1	48	45	23	15	21	52
25. Tanzania	16.9	2.7	3.0	47	48	22	16	66	51

GNP per capita		% share of GDP in agriculture		% share of GDP in industry		Merchandise trade ((millions $)		Current account balance before interest payments in external public debt (millions $)		Average index of food production per capita (1971–79=100)1976–78
Dollars 1978	*Average annual growth (%) 1960–78*	*1960*	*1978*	*1960*	*1978*	*Exports 1978*	*Import 1978*	*1970*	*1978*	
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
200	1.6	50	38	17	24	28,749	32,073			97
—	—	—	—	—	—	—	—	—	—	57
90	—0.4	61	57	8	13	576	1,294	—	—302	90
90	—	—	60	—	14	9	64	—	—	96
100	—0.3	—	—	—	—	—	—	—	—	100
120	1.5	65	54	12	13	310	522	—26	—98	84
130	1.0	55	37	10	18	107	219	—2	—72	90
120	0.8	—	62	—	12	87	227	—	25	92
130	—0.5	67	60	13	11	107	241	—5	63	87
140	2 2	—	55	—	15	67	67	98	—	22
140	—1.0	55	52	12	13	102	192	2	—188	89
140	0.4	55	45	9	16	129	278	—	—	81
150	1.3	33	46	12	13	243	309	—62	—137	96
160	1.3	62	38	14	20	57	212	9	—79	95
170	—	—	—	—	—	—	—	—	—	102
180	1.4	50	40	20	26	6.614	0,954	—205	915	100
180	2.9	58	43	11	19	187	339	—32	—116	99
180	1.4	81	46	7	22	70	172	6	—46	103
190	2.0	34	35	22	31	846	939	—45	—33	114
210	0.6	56	32	36	41	313	273	—	—16	86
210	0.5	—	39	—	22	161	278	—14	—96	93
210	1.1	30	27	27	20	925	589	—55	88	94
220	—1.4	69	43	9	27	158	346	1	—81	87
230	0.4	55	31	8	13	26	267	—1	70	92
230	2.8	46	32	16	24	1,471	3.275	—591	—550	101
230	2.7	57	51	11	13	457	1,117	—29	—442	93

TABLE VII. 1. (*Contd.*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
26. Afghanisthan	14.6	2.2	2.2	48	48	30	22	12	42
27. Central African Rep.	1.9	2.2	2.2	42	42	26	19	—	46
28. Madagascar	8.3	2.2	2.5	47	45	27	19	50	46
29. Haiti	4.8	1.5	1.7	45	43	23	17	23	51
30. Mauritania	1.5	2.5	2.7	51	50	27	22	17	42
31. Lesotho	1.3	2.0	2.3	40	40	23	16	55	50
32. Uganda	12.4	3.7	2.9	45	44	21	14	—	53
33. Angola	6.7	1.5	2.3	50	48	31	23	—	41
34. Sudan	17.4	2.2	2.6	47	45	25	18	20	46
35. Togo	2.4	2.7	2.7	51	50	27	19	18	46
36. Kenya	14.7	3.4	3.3	51	51	19	14	40	53
37. Senegal	5.4	2.4	2.6	48	49	27	22	10	42
38. Indonesia	136.0	2.2	1.8	47	37	23	17	62	47
Middle-income countries	872.8	2.5	2.4	40	35	14	11	71	61
39. Egypt	39.9	2.5	2.2	45	37	19	13	44	54
40. Ghana	11.0	2.4	3.0	49	48	24	17	30	48
41. Yemen, PDR	1.8	1.9	1.9	54	48	30	21	27	44
42. Cameroon	8.1	1.8	2 2	43	42	27	19	—	46
43. Liberia	1.7	3.1	3.3	51	51	25	18	30	48
44. Honduras	3.4	3.1	3.3	51	47	19	12	57	57
45. Zambia	5.3	2.8	3 0	51	49	24	17	39	48
46. Zimbabwe	6.9	3.9	3.3	47	48	19	14	—	54
47. Thailand	44.5	3.0	2.7	46	32	17	8	84	61
48. Bolvia	5.3	2.5	2.6	48	44	23	15	63	52
49. Phillippines	45.6	3.0	2.7	45	35	15	9	87	60
50. Yemen Arab Rep.	5.6	1.8	1.9	49	48	29	25	13	39
51. Congo People's Rep.	1.5	2.1	2.5	46	45	27	19	50	46
52. Nigeria	80.6	2.5	2.5	52	50	25	18	—	48
53. Papua New Guinea	2.9	2 3	2.4	44	41	23	16	32	50
54. El Salvador	4.3	2.9	2.9	48	39	17	9	62	63
55. Morocco	18.9	2.5	2.9	52	45	23	13	28	55
56. Peru	16.8	2.8	2.7	47	39	19	12	72	56
57. Ivory Coast	7.8	3.7	5.6	50	50	27	19	20	46
58. Nicaragua	2.5	2.9	3.3	51	45	19	13	57	55
59. Colombia	25.6	3.0	2.3	46	31	14	8	81	62
60. Paraguay	2.9	2.6	2.8	43	39	13	9	81	63
61. Ecuador	7.8	3.1	3.3	47	44	14	10	74	60
62. Dominican Rep.	5.1	2.9	2.9	50	37	16	9	67	60
63. Guatemala	6.6	2.8	2.9	48	41	18	12	47	57

(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
240	0.4	—	—	—	—	322	681	—	38	100
250	0.7	51	3a	10	18	72	57	—11	—23	102
250	−0.3	37	38	10	19	387	443	12	—51	95
260	0.2	—	—	—	—	152	140	2	—39	91
270	3.6	59	26	24	37	119	189	—5	—65	71
280	5.9	—	36	—	15	—	—	—	—110	90
280	0.7	52	57	13	7	350	255	24	—129	90
300	1 2	50	50	8	21	500	340	—	—	88
320	0.1	58	43	15	12	533	1,198	—29	—54	108
320	5.0	55	26	16	20	235	381	4	—234	80
330	2.2	38	41	18	19	1,022	1,703	—38	—474	91
340	−0.4	24	26	17	25	391	788	—14	−114	96
360	4.1	54	31	14	33	11,643	6,690	—286	—773	100
1,250	3.7	22	16	31	34	179,935	231,663			106
390	3.3	30	29	24	30	1,901	6,480	—116	—540	93
390	−0.5	41	38	19	18	1,304	1,266	—56	32	79
420	—	—	—	—	—	105	590	—9	—20	108
460	2.9	—	32	—	16	803	1,057	—26	—112	112
460	2.0	40	35	37	28	486	481	—	—122	96
480	1.1	37	32	19	26	596	693	—61	—126	84
480	1 2	11	17	63	39	832	611	131	—191	109
480	1.2	18	20	35	35	—	—	—	—	102
490	4.6	40	27	19	27	4,085	5,256	—234	—1,098	122
510	2.2	26	17	25	28	627	768	—16	—301	111
510	2.6	26	27	28	35	3,425	5.143	—23	—991	115
520	—	—	35	—	14	34	1,043	—	80	98
540	1.0	23	13	17	33	138	334	—	—156	82
560	3.6	63	34	11	43	9,483	12,857	—348	—3,696	89
560	3.6	49	33	13	26	780	676	—	—12	106
660	1.8	32	29	19	21	629	1,025	12	−230	111
670	2.5	23	18	27	32	1,511	2,970	—10	—1,040	80
740	2.0	26	14	29	36	1,949	1,960	245	119	90
840	2 5	43	21	14	23	2,322	2,325	—26	−533	104
840	2.3	24	23	21	26	594	646	—32	23	102
850	3.0	34	31	26	27	3,018	3,060	—249	305	114
850	2.6	36	32	20	24	257	349	—13	—109	103
880	4.3	33	21	19	35	1,494	1,627	—106	—54	103
910	3.5	27	21	23	29	604	860	—98	—334	93
910	2.9	—	—	—	—	1,090	1,286	—2	—192	108

TABLE VII 1. (*Contd.*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
64. Syrian Arab Rep.	8.1	3.2	3.2	47	45	26	13	53	57
65. Tunisia	6.0	1.9	2.0	49	32	21	12	55	57
66 Jordan	3.0	3.0	3.3	48	46	20	13	70	56
67. Malaysia	13.3	2.9	2.7	39	29	9	6	60	67
68. Jamaica	2.1	1.4	1.7	39	29	9	6	86	70
69. Lebanon	3.0	2.8	2.5	43	33	14	8	—	65
70. Korea, Rep. of	36.6	2.4	1.9	41	21	13	8	93	63
71. Turkey	43.1	2.5	2.5	44	32	17	10	60	61
72. Algeria	17.6	2 4	3 2	50	48	23	14	37	56
73. Mexico	65.4	3.3	3.3	45	38	12	8	76	65
74. Panama	1.8	2.9	2.6	41	31	10	6	78	70
75. Taiwan	17.1	2.6	2 0	39	21	7	5	82	72
76. Chile	10.7	2 1	1.7	37	22	12	7	88	67
77. South Africa	27.7	2.6	2.7	39	38	15	10	—	60
78. Costa Rica	2.1	3.4	2.5	47	28	10	5	90	70
79. Brazil	119 5	2 9	2.8	40	36	11	9	76	62
80. Nruguay	2 9	1.1	0.3	22	20	9	9	94	71
81. Argentina	26.4	1.4	1.3	24	21	9	8	94	71
82. Portugal	9 8	0 0	1 0	24	18	8	10	70	69
83. Yugoslavia	22.0	1.0	0.9	23	18	10	8	85	69
84. Trinidad and Tobago	1.1	2.0	1.2	37	22	7	6	95	70
85. Venezuela	14.0	3.4	3.3	45	36	10	7	82	66
86. Hong Kong	4 6	2.5	1.9	35	19	7	6	90	72
87. Greece	9.4	0.5	0.7	19	15	8	9	—	73
88. Singapore	2.3	2.4	1.5	38	17	8	6	75	70
89. Spain	37 1	1.1	1.2	21	18	9	8	—	73
90. Israel	3.7	3.4	2.7	26	26	8	7	88	72
Industrialized countries	667 8	1.0	0.7	20	14	10	9	99	74
91. Ireland	3.2	0.4	1.2	21	21	12	11	98	73
92. Italy	56.7	0.7	0.7	18	13	10	9	98	73
93. New Zealand	3.2	1.7	1.6	26	17	9	8	99	73
94. United Kingdom	55.8	0.5	0.1	17	12	12	12	99	73
95. Finland	4.8	0 4	0.4	19	14	9	9	100	72

(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
930	3.8	—	20	—	28	1,053	2,437	—64	—406	150
950	4.8	24	18	18	30	1,126	2,162	—35	—411	128
1,050	—	—	11	—	29	297	1,499	—15	—256	77
1 090	3.9	37	25	18	32	7,413	5,929	29	284	110
1.110	2.0	10	9	36	39	710	872	—145	—72	98
—	—	12	—	20	—	625	1,696	—	—494	85
1,160	6.9	40	24	19	36	12,711	14.972	—553	—455	116
1,200	4.0	41	27	21	28	2,288	4,597	—28	—1,121	110
1,260	2.3	21	8	33	56	5,866	8,531	—116	—2,977	82
1,290	2.7	16	11	29	37	5,739	7,744	—850	—896	99
1,290	2.9	23	—	21	—	244	942	—57	—91	103
1,400	6.6	28	10	29	48	12,682	11,033	27	1,979	105
1,410	1 0	11	10	38	29	2,481	2 595	—13	—659	94
1,480	2.5	12	8	40	45	7,182	7,193	—1,156	2,010	100
1,540	3.3	26	22	20	27	816	1,184	—67	—309	114
1,570	4 9	16	11	35	37	12,527	14,538	—701	—5,310	117
1,610	0.7	19	14	82	32	686	774	—29	—66	105
1.910	2.6	17	13	38	45	6,400	3,834	—36	2,512	114
1,990	5.9	25	13	36	46	2.393	4,791	—	—337	82
2.380	5 4	24	16	45	45	5.659	9 987	—276	—834	117
2,910	2.2	8	3	46	62	2,039	1,967	—74	61	94
2.910	2.7	6	6	22	46	9,126	10,614	—64	—4.973	97
3,040	6.5	4	2	34	31	11,499	13,452	—	317	30
3,250	6 0	23	17	26	31	3,341	7,648	—364	—1,056	120
3,290	7.4	4	2	18	35	10,134	13,049	—565	—669	112
3,470	5.0	21	9	39	38	13,115	18,708	151	321	122
3,500	4.2	11	7	32	37	3,716	5,582	—572	—732	113
8,070	3.7	6	4	40	37	837,596	862,455			108
3,470	3.3	22	—	26	—	5,678	7,097	—189	—178	128
3.850	3.6	13	7	41	42	50,047	56,446	902	6,355	100
4,790	1.7	—	10	—	31	3,752	3,500	—29	—387	107
5,030	2.1	4	2	43	36	71,691	78,557	1,865	1.932	111
6,820	411	16	8	35	35	8,618	7.864	—239	606	107

TABLE VII. 1 (*Contd.*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
96. Austria	7.5	0.5	0.2	18	11	13	12	99	72
97. Japan	114.9	1.0	1.2	18	15	8	6	99	76
98. Australia	14.2	2.0	1.6	22	16	9	8	100	73
99. France	53.3	1.0	0.6	18	14	12	10	99	73
100. Neitherlands	13.9	1 3	0.8	21	13	8	8	99	74
101. Belgium	9.8	0.5	0.3	17	12	12	11	99	72
102. Canada	23.5	1.8	1 2	27	16	8	8	98	74
103. Norway	4.1	0.8	0.6	18	13	9	10	99	75
104. Germany, Fed. Rep.	61.3	0.9	0.1	17	9	11	12	99	72
105. United States	221.9	1.3	0.8	24	15	9	9	99	73
106. Denmark	5.1	0.7	0.4	17	12	9	10	99	74
107. Sweden	8.3	0.7	0.4	15	12	10	11	99	75
108. Switzerland	6.3	1.6	0.1	18	11	10	9	99	74
Capital-surplus oil exporters	60.1	2.9	3.2	48	43	21	14	50	53
109. Iraq	12.2	3.1	3.3	51	47	19	13	–	55
110 Iran	35 8	2.7	2.9	47	40	21	14	50	52
111. Libya	2.7	3.8	4.1	49	47	19	13	50	55
112. Saudi Arabia	8.2	2.6	3.5	51	51	28	15	—	53
113. Kuwait	1.2	9.8	6.1	44	47	10	5	60	69
Centrally planned economies	1,352.4	1.7	1.4	32	18	13	7	—	70
114. China	952.2	2.1	1.6	36	18	15	6	—	70
115. Korea, Dem. Rep.	17.1	2.8	2.6	41	33	13	8	—	63
116. Albania	2.6	2.8	2.5	41	30	11	6	—	69
117. Cuba	9.7	2 0	1.6	32	19	9	6	96	72
118. Mongolia	1.6	2.9	2.9	41	37	15	8	—	63
119. Romania	21.9	1.0	0.9	20	19	9	9	98	70
120. Bulgaria	8.8	0.8	0.5	18	16	9	11	—	72
121 Hungary	10.7	0.4	0.4	16	16	10	12	98	70
122. Poland	35.0	1.0	0.9	24	19	8	9	98	71
123. USSR	261.0	1.2	0.9	24	18	7	10	99	70
124. Czechoslovakia	15.1	0.5	0.7	17	18	10	11	—	70
125. German Dem. Rep.	16.7	–0.1	–0.2	17	13	13	13	—	72

Source: World Bank Report 1980, Oxford University Press, 1981.

(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
7,030	4.2	11	5	49	42	12,205	16,013	—23	—1,410	109
7,280	7.6	13	5	45	40	97,501	78,731	1,980	17,528	97
7,990	2.9	12	5	37	32	14.127	13,885	—832	—3.845	121
8,260	4.0	10	5	38	37	76,609	81,805	67	3,766	106
8,410	3.4	9	4	46	34	50,188	53,082	—487	—1.449	118
9,090	4.1	6	2	41	37	44,853	48.376	537	—556	105
9.180	3.5	6	4	34	31	46.065	43.434	1.078	—4,617	112
9,510	4.0	9	5	33	36	10,011	11,473	—242	—2,145	108
9,580	3.3	6	3	53	48	142,090	120,668	850	8,852	104
9,590	2.4	4	3	38	34	141,154	182,787	6,200	—4,432	114
9,920	3 2	11	—	32	—	11,880	14.810	—544	—1,469	102
10,210	2.5	7	4	40	33	21,560	20,123	—266	—954	113
12,100	2.2	—	—	—	—	23,561	23,804	70	4,403	113
3,340	7.1	—	5	—	65	94,107	49,866			111
1,860	4.1	17	—	52	—	11,038	4.213	110	1.209	84
2,160	7 9	29	9	33	54	22,430	16,019	—422	5.370	113
6,910	6.2	—	2	—	71	9.503	5,603	645	1,024	123
7,690	9.7	—	1	—	76	40,716	20,424	71	12,793	135
14,890	—2.3	—	(—)	—	72	10,450	4607	—	6,166	—
1,190	4.0	—	—	—	—	128,821	136,420			112
230	3.7	—	—	—	—	10,680	11,950	—	—	111
730	4.5	—	—	—	—	—	950	—	—	130
740	4.1	—	—	—	—	—	—	—	—	107
810	—1.2	—	—	—	—	4,456	4,687	—	—	96
940	1.5	—	—	—	—	281	417	—	—	94
1,750	8.6	—	—	—	—	8,237	9,087	—	—	148
3,230	5.7	32	18	53	64	7,478	7,651	—	—	113
3,450	5.0	24	15	69	50	6,345	7,902	—	—	122
3,670	5.9	26	16	57	64	14,114	16,089	—	—	104
3,700	4.3	21	17	62	62	52,216	50,550	—	—	111
4,720	4.3	16	9	73	72	11,747	12,565	—	—	118
5,710	4.8	—	10	—	69	13,267	14,572	—	—	127

some cases may be very large, owing to rapid inflation; and second from the spread of the money economy at the expense of the subsistence sector ..Statistics of growth of real income a may not always succeed in making accurate allowance for these factors."[5]

Throughout the post war years the policy of pushing the rates of growth in the developing countries has been considered by economists as a desirable strategy of economic development. It was considered in the mid-fifties that higher rates of growth shall automatically solve the problems of economic development, and that the increased total incomes will have the wider effects, thus raising the standards of living. But as it has been proved by the actual growth performance of the developing countries, the higher rates of growth of GNP—total and even per capita—have not been able to bring positive growth effects in the standards of living, employment and other related fields of life of the people.

During the decades 1950–1970 the average rate of growth of output was a little over 5 percent. It had accelerated to a little over 6 percent during 1963–1973, and during the period 1970–1980, it had been even higher than that of the developed countries. Thus the actual performance of the developing countries, measured in terms of growth rate is, indeed, impressive.

Nevertheless, in order to reduce the gap and the absolute difference between the higher and lower income countries—the starting point of the latter being very low—over a relatively shorter period of time, growth must be even much higher than what has been recorded in the past. But the chances of this happening are very slim, and that too due to the fact that the rate of growth in the developing countries has already started to drop, for variety of reasons such as lack of capital resources, national indebtedness, outmoded and unsuitable technology, failure of manpower policy, intrasectoral disproportions, internal socio-political conflicts, and the like.

Irrespective of the defect in approach, from economic growth point of view, evidently, the problem of higher per capita growth rates remain in focus. If we look at the growth rates of the gross national product, we may observe that inspite of the impressive aggregate rate, the actual economic growth per capita has been fairly low. During the period 1960–1978 the LICs have recorded a growth rate

5. H. Myint, The Economics of Developing Countries, Hutchinson, London, 1974, p. 9.

of 1.6 percent. Within the group, although certain countries (Lesotho, Togo and Indonesia) have attained a per capita growth rate between 4.1 and 5.9 percent, most countries have a fairly low rate. So much so that six countries out of thirty-eight had negative rates ranging from —0.3 to —1.4 percent (Medagascar and Niger respectively) As against this, for comparison, during the same period the ICs and MICs have registered a per capita growth of 3.7 percent, CPFs of 4 percent and the CSOEs of 7.1 percent. Out of the whole lot only Kuwait and Cuba have negative per capita growth rates. However, the low per capita growth rates are due to the fact that the population growth in these countries has been fairly high. The problem of low growth rates to some extent can also be attributed to the general problem of measurement of GNP to which we have already referred.

The issue of the development gap between nations have attracted wider interest of economists[6]. It is an undisputable fact that the distribution of total world income and wealth, irrespective of the causes, is unequal among nations and their people. It is interesting enough to note that while the northern hemisphere is rich and southern poor, the western part of the world is relatively better off than the eastern. The statistics of growth of world GNP confirm further the fact that the rich countries of the world have grown richer in the past three decades, and the poor countries of the world have experienced a further deterioration in conditions of poverty. This fact has led to a popular thesis of growing world poverty converted into an issue in development economics, which lately drew attention of some economists as well as of the international agencies.[7]

6. A P. Thirlwall is one of the few who drew attention to the question of development gap. He has made an interesting analysis of the gap between nations for the decade 1960-1970 His basic thesis is based on the fact that EEC and US record 3% growth rate from now till the year 2000, then how high rate should the poor countries record merely to prevent the current absolute per capita income gap from widening, and how much time the poor need to eliminate the difference. (See his book, Growth and Development, Macmillan, London, 1974)

7. The works of Chenery and group within the World Bank (e.g. Structural Change and Development Policy, IBRD, Washington, 1979; Redistribution with Growth, World Bank and University of Sussex Washington, 1974) and individual writings of M. Haq (The Poverty Curtain, New, York 1976), H. Singer (Rich and Poor Countries, George Allen and Unwins, London, 1977),

The development gap issue was initiated by Patel [8], and since then it has attracted great academic interest. However, the survey conducted by Thirlwall [9], nevertheless, depicts the most illustrative picture of the situation. He attempts to answer for the assessment of the gap as well as that of absolute and relative differences in per capita incomes. However, there is a tendency in economics to measure the phenomenon especially dispersions of income, in relative rather than absolute terms—to compare differences in the rates of change of variables, rather than absolute differences, as well as with Lorenz curves. According to Thirlwall, in comparing rich and poor countries, the comparative position of the poor may have worsened because the absolute gap has widened. In the Development Decade 1959–1960, however, both the relative and absolute per capita income gap between nations seems to have widened. From the future comparative position point of view, by assuming that it is desirable to eliminate the relative as well as absolute gap, Thirlwall makes an analysis of the actual data on per capita GDP and subsequent growth rates for 1958–1965, and evaluates the possibilities of how much the developing countries need to grow to prevent merely the present absolute per capita income gap between rich and poor countries from being any wider in the year 2000. It is also assumed by him that the EEC countries and the US shall record a growth rate of only 3% per annum, and based on this assumption he calculates the time period that will be needed for the developing countries to mitigate the per capita income gap.[8]

From his analysis it is evident that growth rates that would be necessary in the developing countries to prevent the per capita income gap from widening by the year 2000 will have to be much higher, say between 8 to 10% as against 2 to 4% actually recorded. The chances of this happening are very remote. Secondly, unless there is a substantial increase in the per capita income growth over the next decades, except for a few countries, the absolute gap will be

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Geoffrey Lean (Rich World, Poor World, London, 1978), Gary S. Fields (Poverty, Inequality and Development, Cambridge Univ. Press, 1980) are some of the recent studies in this field.

However, contributions of S. Kuznets remain of indispensible value (see Economic Growth and Structure, Norton, New York, 1965; and Economic Growth of Nations, Oxford Univ. Press, London, 1971).

8. For a detailed discussion on the problem refer to his book, Growth and Development, Macmillan, London, 1974, pp. 9–19.

much wider in the year 2000. Thirdly, with the living standards currently prevailing, it will take centuries, if ever, for living standards to be equalized in the world, unless the growth of per capita income in the developing countries far exceeds the assumed 3% growth of the developed nations.

So far, the commonly accepted goal of economic development was thought to be the aggregate economic growth. Now, as we see, it only confirms, that the GNP measures and the rate of growth technique are incomplete. To assess the economic development of the developing countries, particularly in view of the widening gap between nations, we must supplement and substantiate the analysis with the study of changes in distributional pattern of economic growth and the resulting effects on the poverty of these nations.

To assess the dimensions of economic development, the World Bank Research Center has initiated the study into the growth and poverty of the developing countries, conducted among others by Ahluwalia and Carter [10]. The findings of the study are very interesting and we may restate some of the main points here.

It has been confirmed by the study that "Although the output of the world economy has expanded at an unprecedented rate in the past quarter century, the benefits of growth have reached the world's poor only to a very limited degree. This phenomenon is not the result of any failure of developing countries as a group to share in the general economic expansion. Their income per capita rose by almost 3% a year over this period—considerably faster than in the past. The failure lies in the distributional pattern of past growth, which has left the poorest groups largely outside the sphere of economic expansion and material improvements."

It is further stated in the study that "There are two aspects to this phenomenon. First, the impressive record of the Third World as a whole conceals the fact that most of the poorest countries containing the principal concentrations of the world's poor, have experienced lesser increase in income. Second, and equally important, there is mounting evidence that the growth processes underway in most countries are such that the incomes of the poorer groups increase more slowly than the average."

The research by Ahluwalia and Carter concentrates on the evaluation of the absolute level of poverty, the results of the past policy, and the possibilities of improvement in such a state. The

study covers 36 countries covering 80% of world population (excluding that of China). The study determines the so called "biological poverty line" based on consumption of a minimum of 2250 calories of intake per capita in India, as the basis of measurement. It has been discovered that roughly 40–50% of the total population in the developing countries lives below such a poverty line. For international comparison of the poverty dimension the study takes the value of 200 ICP (International Comparison Project of the UN based on "equivalent purchasing power ratios" estimated

TABLE VII. 2. HOUSEHOLD INCOME DISTRIBUTION IN SELECTED COUNTRIES

Countries	*Year*	*Percentage share of household income by percentile group of households*				
		I	*II*	*III* *quintiles*	*IV*	*V*
India	1964/65	6.7	10.5	14.3	19.6	48.9
Sri Lanka	1969/70	7.5	11.7	15.7	21.7	43.4
Philippines	1970/71	3.7	8.2	13 2	21.0	53.9
Peru	1972	1.9	5.1	11.0	21.0	61 0
Malaysia	1970	3.3	7.3	12.2	20.7	56.6
S. Korea	1976	5.7	11.2	15.4	22.4	45.3
Brazil	1972	2.0	5.0	9.4	17.0	66.6
Yugoslavia	1973	6.9	11.9	17.6	24.0	40.0
U.K.	1973	6.3	12.6	18.4	23.9	38.8
Japan	1969	7.9	13.1	16.8	21.2	41.0
Netherlands	1967	6.5	11.6	16 4	22.7	42.9
W. Germany	1973	6.5	10.3	15.0	22.0	46.2
U.S.	1972	4.5	10.7	17.3	24.7	42.8
Sweden	1972	6.6	13.1	18.5	24.8	37.6

Source: World Bank Report, 1979, tab. 24.

by Kravis and associates) dollars (at 1970 prices)—the income level of 46th percentile, of Indian population as the poverty line. The application of these criteria to all other countries in the study, show that almost 40% of the population of the developing countries live in absolute poverty, and that the bulk of the poor are in the poorest countries; and the incidence of poverty is 60% or more in countries having the lowest levels of real GNP.[9]

According to the latest statistics of the World Bank, it can further be observed that the absolute differences in the per capita annual incomes between the countries are further deteriorating as is reflected in the internal distribution of the household incomes in some of the countries of the LICs and ICs group.

SOME SOCIO-ECONOMIC FEATURES

Although the preceding discussion on per capita incomes, its distribution and that of poverty in the developing countries, provides a vivid account of the economic conditions of their people, yet for a better understanding one needs to consider certain other socio-economic indicators such as natural resources, demographic and employment situation, economic structure, standard of health, education, etc.

Underutilization (non-utilization or misutilization) of natural and land resources is often said to be characteristic of the developing countries. Land as an economic resource implies not only the land area but climatic component, topography, soil, vegetation, mineral contents, waterways, etc. Some characteristics of particular land areas in the developing countries are virtually immutable, with important consequences for their potential growth and productivity. Man can only partially influence the nature, but by judicious investment of labour, capital and technology can enhance the growth. Similar is the case with other resources of the nature including the mineral resources. The process of economic development depends not so much on physical characteristics of land areas where low productivity of income prevails, but on increasing the possibilities of raising these incomes by combining the natural

9. For details on the problem, readers may refer to Ahluwalia and Carters contribution in H. Chenery (ed.), Structural Change and Development Policy, World Bank, Washington, 1980.

resources with other agents of production—material and social. Although the physical and economic geography of the developing countries is a subject of specialized study, we may, however, add here the fact that about 8 billion hectares or 59 percent of the worlds total land is desert, salted and ice covered, and much of the remaining not suitable for agriculture. The land under cultivation cycle is only 1425 thousand hectares, and only 932,000 ha is harvested annually. As far as mineral resources are concerned, it is often claimed that the "developing countries are rich in mineral wealth." It is said that Africa possesses large reserves of copper, tin, uranium, bauxite, and gold; Asia is supposed to be rich in oil, iron, tin and manganese and the Latin America is immensely rich in petroleum, iron, zinc and copper. However, some studies show that major portion of mineral resources is indeed concentrated in the developed countries except only a few in which the developing countries have virtual monopoly. Meanwhile, whatever little is concentrated in the developing countries, is mostly used by the developed countries. The hypothesis, that the developing countries are potentially rich in mineral wealth has come to be proved now rather shaky. Nevertheless, it would perhaps be correct to say that in majority cases the hidden mineral wealth is either not identified or properly being exploited. Similarly, it is claimed and to some extent proved that hydro and solar resources are immense in the developing countries and needs proper exploitation. For example. Africa possesses 45 percent of world's hydro-power potential but only 0.1 percent is being utilized.[10]

As far as the economic structure of most developing countries is concerned, it remains predominantly an agricultural one. In fact, agriculture shares in the GNP formation by 30 to 60 percent. It still absorbs the larger sections of the population in the developing countries. But the pattern is slowly changing in favour of secondary and tertiary activities, as the industrial sector gradually builds up. Naturally, the solutions are to be looked for in parallel growth of all the sectors based on optimization principle with an emphasis of labour intensive development strategy.

10.The studies made by M. Mesarovic and E. Pastel, Mankind at the Turning Point, Dutton, New York, 1974; and D. Meadows et al., TheLimits to Growth, Report to the Club of Rome, London, 1972, deal with some of the aspects of the problem of natural resources and their use in the world. However, the conclusions of the studies may be taken with a sense of reserve.

It may be suggested that although the growing international poverty is the result of low per capita incomes, biased income distribution, low productivity, etc., it must also be recognized that it also is the cause and incidence of demographic features of the developing countries. The subject has attracted a great deal of attention in the writings of many economists, such as Kuznets [11], Spengler [12], Clark [13[, Singer [14] and others. The major thesis in literature till only recently has been that large size of the population and the high population growth rate is an obstacle to development in the developing countries, and that it is an international problem.

It is a hard fact that the population of the world as it stands now (estimated at 4.25 billion in mid–1978 by the World Bank), with its present rate of growth will reach the mark of 6.1 billion by the year 2000. The absolute mass of the population with a relatively high rate of growth ranging between 2.4 (MICs) and 2.2 (LICs)—with individual countries recording as high a rate as 3.3 to 5.6 (Kenya, Liberia, Honduras, Zimbabway, Nicragua, Jordan, Mexico, Venezuela, and Ivory Coast)—seems rather unmanageable. However, it is less an international and more of a national problem, as Haq calls it,[11] putting more and more pressure on the national resources. The population pressure that is building up in China, India, Pakistan, Indonesia and Bangladesh, i.e. SE Asian countries is depressive to development efforts of these nations. To offset thc negative effects population planning is suggested as the policy option. Moreover, the demographic problems of the developing countries are not alike everywhere. These vary in continents and from country to country. However, demographic rates (i.e. death and birth rates, infant mortality rate, fertility rate, being relatively high and life expectancy low) remain in focus of attention and need not only economic but also medical attention. The population problem, due to migratory tendencies for economic reasons primarily poses special problems in selected urban pockets of the developing world (e.g. in Shanghai, Manila, Jakarta, Bangkok, Honkong, Calcutta and Bombay).

The problem of mass poverty in its broadest sense remains acute in urban parts of these countries due to the large size of population

11. Refer M. Haq, The Poverty Curtain, Columbia Univ. Press, New York, 1976, p. 124.

and all other demographic characteristics. One of the factors that influences the poverty situation in these countries and their urban areas, is the employment situation. Underemployment and unemployment is gradually on increase. Theoreticians have been long talking of the phenomenon and constructing development strategies based on the best possible use of manpower supply. However, the pattern of development unfortunately has not conformed to the theories, and the current average rate of unemployment according to the ILO estimates, in urban areas remains as high as 15 percent, and among the educated sections of the population upto 30 percent. Underemployment in agriculture, which is rather difficult to estimate, when added to the size of unemployment, the employment situation becomes rather serious to handle. The task of solving this problem is becoming further tricky due to an increase in the labour force on one hand and its professional and educational structure on the other. The prospects of job creation at a satisfactory rate to cope with the size of unemployment problem thus becomes a major task of economic policy and development strategy. Moreover, the current development policies in many African and Asian countries, however, run contrary to the proclaimed employment strategy, as, for example, higher technological advance based on automation in industry and allied fields. adopted as the basis of their industrial economic development in certain countries has only aggravated the employment situation.

With demographic and economic problems are related the social problems such as national health and education. The high natal and death rates, infant mortality rate and a relatiaely low life expectancy at birth are some of the basic health indicators of the lower health standard in the developing countries. Mass poverty in these countries is coupled with malnutrition, squalor, disease and ill health. The lower value of per capita protein intake in the developing countries poses a life hazard. The provisions of medical care are remote and inadequate, and are characterized by lack of finances, personnel, equipment and drugs. Lack of general education on problems of social sanitation, hygiene, and basic health hazards are an obstacle to higher health standard. The hot and damp climatic conditions mixed with the above factors lead very often to epidemics with high rates of casualties. To add to the problem are some of the factors like inadequate housing conditions, unsafe drinking water, absence of drainage system, etc.

Ample statistics from the WHO sources could prove these facts. However, the solution lies in an all out coordinated effort to eradicate the poverty as such, which is another name for low level of national health. Massive health campaigns like eradication of diseases, programmes of primary health care, general health education through mass media, etc. are some of the actions that could facilitate the task of ensuring better health standards, to a great extent.[12]

Education is one of the major factors affecting economic development. For quite some time, investment in human capital, education and manpower planning have been jointly treated as "economics of education." Many economists like Schultz [15], Becker [16] and Haribson [17] have emphasized the role of education in economic development It has now come to be widely accepted that without comprehensive measures in education—general and professional—it is almost unthinkable that speedy economic development could take place at all. In fact, education and economic development are mutually interrelated phenomena having feedback effects. The educational aspects of the economic development process have specific dimensions in the developing countries. There is not only a need for "formal" but also for "general" (informal) education. Moreover, the problems of formal education are reflected in mass illiteracy, lower degree of basic, secondary and university education. This, in general, is caused by a relatively lower capacity to invest in educational activities by the government, on one hand, and due to the existence of unsatisfactory educational institution network on the other. The vicious circle is further complicated by undefined and uncoordinated educational policy in the developing countries. Moreover, the role of informal and general education outside the schools and colleges is also not to be neglected. Such education is dependent on the level of formal education, which being already low, determines the lower level of the former.

One of the burning questions of the current educational problems in the developing countries is the job-training. Application of modern techniques in production requires that the labour force adopts modern methods of technology which needs professional and job training.

12. S. Sharma, Problems of Economic Development in the Developing Countries, with Reference to Health Care, Diabetica Croatica, Zagreb, 1979.

Sadly enough the trends in education in the developing countries do not favour job-training and emphasis is laid on general and traditional education, which in turn have not rarely created the problem of the educated unemployeds.[13]

These are only some of the aspects of socio-economic development in the developing countries. The facts as have been stated above can easily be proved and supported by data. Some of the basic statistics on above mentioned aspects can be seen in Table VII. 1, which hardly needs any further interpretation.

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CHAPTER EIGHT

New International Economic Order, Strategies and Development

THE HISTORICAL SETTING

From Cocoyoc to Cancun, it is a history of demand by the developing countries for the changes in the existing world order that emerged after the Second World War. The summit meeting in Cancun (Oct. 22–23, 1981) between the two groups of 14 leaders from the developing countries and 8 of the developed world, marks the biggest opening in South's long drawn out battle to press for international economic reforms. The roots of the confrontation dates back from 1950s when the nonaligned movement came to being. In 1964 a larger Group of 77 nations formed a block at the UNCTAD. A decade later the devastating OPEC oil-prices stimulated the "Group 77" to push through resolutions on establishing a New International Economic Order (NIEO) and drawing up of an Action Programme. But none of the talks ever got beyond strident rhetoric. The South, according to Haq [1], did itself a "tremendous disservice by suggesting that the New International Economic Order was a demand. It should have been projected as a need of the North." To break the stalemate, that was reflected in Buchrest (1974), Rome (1975), Lima (1975), Nairobi (1976), the President of the World Bank asked Brandt [2] to organize a major study to assess the flaws of world's post-war economic institutions, and in 1977 along with other 17 member statesmen and leaders from many spheres, formed an independent group of experts to "study the grave global issues arising from the economic and social disparities of the world community, and to suggest ways of promoting adequate solutions to the problems involved in development and attacking absolute poverty." In 1980, the Brandt Commission published its "programme for survival" —North-South, calling for massive new flow of credits

and aid to the South, reform of the international monetary system—and a North-South summit to provide "a new impetus for future negotiations." But confrontations have continued in Manila (1979) and New Delhi (1981).

However, the cry for a change in economic and social order of the world community has been for long, but it took the West by shock and surprise in 1974. Encouraged by the success of oil price-hike, during the late 1973, the developing countries used a number of official and unofficial forums to press their proposals for reforms in the operation of international institutions. But the major demands of the "new order" called for were: market access for their manufactured goods, stable prices for their agricultural and other commodities, renegotiation of their growing international debts, restraints on the activities of the multinationals, greater access to existing technology, an expanded share in the production of the world's industrial goods, an aid relationship that relied less on short term legislative appropriations and more on various forms of more automatic resource transfers, and above all a major adjustment of existing international decision-making procedure to give the developing countries a greater voice in the governance of world's trade and financial system.

Naturally, most of the developed countries of the West (except Sweden) looked at it as a challenge to the dominant position of the industrialized countries with the US being at the helm. West saw it as "zero sum game" implying antagonism and conflict. It resulted in stone-walling by the industrialized nations by turning a deaf ear to the call. The resolutions of the General Assembly of the UN Report by Tinbergen [3], and now the Brandt Programme for Survival, have made little dent in the Western bunker. Although, in 1961 US President Kennedy in one of his speeches emphasized, that "there exists, in the 1960s, an historical opportunity for a major economic assistance effort by the free industrialized nations to move more than half the people of the less developed nations into self-sustained growth, while the rest move substantially closer to the day when they too, will no longer have to depend on outside assistance" (March, 1961), the attitude after twenty years seems to change the tide drastically, as is evident in the remark of US President Reagan made before his departure to attend the summit at Cancun, "...unless a nation puts its own financial and economic house in order, no amount of aid will produce progress." However,

such a change is not the overnight shift in the attitude of the US. The past Administrations have been gradually outdoing the positive efforts by reducing the foreign aid of agreed 1 percent of GNP to the recent 0.46 percent.

Thus the agenda at the summit in Cancun remains delicate and the risks enormous: an effort at global negotiations designed to reform the economic order has held sway since the war.

That something must be done for the miseries of the poverty stricken developing world is hardly a debatable point. According to World Bank estimates some 800 million people now live in absolute poverty. Life expectancy being relatively low and infant mortality high, population pressure goes on building up. Thirty-five of the poorest nations accommodating 1.1 billion people—a quarter of world population—is lagging behind with per capita income of less than 370 dollars with 3 percent slice of the world's wealth. With such a background and history we are faced with the problem of New International Economic Order and the strategy of growth and development.

THE NEED AND DEMAND FOR NEW INTERNATIONAL ECONOMIC ORDER

The inequalities in the international economic system and the growing disparities between the North and South is the essence of demand for a new international economic system. A poverty curtain, as Haq defines it, divides the world materially and philosophically. While in the developed world there is a concern for the quality of life, in the developing countries it is the life itself that is in question because of disease, hunger and malnutrition. In the richer world there is concern about the conservation of non-renewable resources, the developing world is anxious for the exploitation and distribution of the same. The statistics of poverty and income distribution, as assessed by Chenery et al. [4], prove that the sufferings of the poor world are immense.

The latest statistics, of the Overseas Development Council of the US shows the great divide of the two world (Table VIII. 1).

To the above, the maldistribution of natural and other resources the growing international debt, high rate of inflation, deficit in the balance of payments, etc. could be added, and all these make up for the unparalleled problems of the developing world.

TABLE VIII. 1. DISPARTIES BETWEEN THE DEVELOPED AND THE DEVELOPING COUNTRIES

Indicator (estimates for 1981)	*Developed countries*	*Developing countries*
Population	1.1 billion	3.4 billion
Per capita GNP (all developing countries)	$10.660	$ 850
Life expectancy	74 yrs.	57 yrs.
Educational expenditure per head	$ 471	$ 19
Military expenditure per head	$ 490	$ 40
Public health expenditure per head	$ 319	$ 10

Both rich and poor countries are undergoing the "crises of development." The two must come to grips with the basically sick system of economic and social order. This is why Tinbergen talks of NIO rather than NIEO The changes that are being demanded for, must balance the interests of the richer and poor world. The world must assess the cost of continued "international disorder" and importance of "dialogue" and "negotiations", if the future "orderly growth" has to be attained.

Change for new is historical fact. The demand for the NIEO must therefore, be, treated as a natural course of the historical process. The demand for structural change that was earlier confined to the national frontiers has now crossed to the international boundaries. Future of mankind, as Tinbergen puts it, "depends upon its coming to terms with these differences, with developing a new understanding and awareness b sed upon interdependence and mutual interest of working and living together. Recent discontinuities in the process of change have placed mankind on the threshold of new choices. In choosing among them, it will have to accept the harsh fact that, perhaps contrary to previous times, it has just one future or no future at all."[1]

The major problem areas of the new international economic order as the UN Declaration and Program of Action on the Establish-

1. See Interim Report, Reviewing the International Order, Rotterdam, 1975.

ment of a New Economic Order (Resolutions 3201 and 3202, May 1974), RIO Report by Tinbergen group to the VII Special Session of the UN General Assembly (1975), and Brandt Commission's Report (1980) defines are: the armaments race, population, food, human settlements, human environment, international monetary and trading system, concessional assistance, natural resources and energy, science and technology, transnational enterprises, the oceans, outer space, international institutions, planetary interdependencies, etc.

The process of negotiations for the new international order is under process for a couple of years now, and certain progress has been made in this direction. Cancun is just only a link in the chain. Although, past years have been characterized by sharp and sometimes bitter confrontation between the market economy industrialized countries and the developing countries, there are a number of encouraging signs that politicians on both sides of the "poverty curtain" are beginning to demonstrate a new awareness of common interests generated by global interdependencies and to adopt a new flexibility in search for the solutions.

It is certainly true that majority of western nations are being driven to the world's negotiating tables, not by the plight of poor nations but by the plight of their own economies and by the serious disproportions in the international system which has helped the developed countries become wealthier. Hence, their preoccupation with safeguarding the flow of supplies of raw material and oil. Naturally, the developing countries have refused to discuss these problems independently of more fundamental institutional reform. It is contended that such reforms must be based upon the right of nations to control and expropriate foreign owned property and enterprises in accordance with national rather than international law. It must also involve the transfer of real resources to the developing countries and include a code of conduct for the transfer of technology. The demand for the restructuring of the world monetary system and of international trade by the developing countries is also associated with their demand for stabilization of commodity prices at equitable levels and indexing of these prices to those of the manufactured goods produced by the industrialized countries. All these elements are incorporated in the plan of action adopted at the May 1974 Session of UN General Assembly. Since then considerable but slow progress has been made in the

sense that the western industrialized countries have understood and analysed the cost of dislocation of their economies by rejecting altogether the demands for the changes in the exising order. But it must also be emphasized here, that while resisting the pressure of the developing countries during last few years, they have indeed worked out an alternative strategy of developing their own economies by conservation of raw materials and energy, new discoveries and improved technology. It is for this re son that they have so far made a slow progress in the first place; and secondly the boomrang effects of the pressure tactics of the developing countries have also mellowed the original demands (e.g. the OPEC oil prices and resulting deficits in balance of payment positions of the developing countries themselves, required 47 billion dollar in 1979 compared to 8 billion in 1974 for debt servicing alone; or the four times higher average rate of inflation in the developing countries compared to the developed, have hurt the developing economies even more).

Nevertheless, what is yet to emerge is the evidence that most rich nations are convinced of the need for structural changes. The apparent readiness of the industrialized nations to discuss the issues cannot yet be taken to mean a recognition of the need for a new international economic order. What they realize is that the demands of the developing countries are legitimate and can no longer be taken lightly and that a change in international structure is required to come to terms with some of their pressing problems. This reluctance to accept the need for structural changes can, however, be traced back not only to inevitable attempts to pressure for preservation of privileged position and power, but also to misconception that the existing order is fair and it only requires streamlining, and that the western independence, despite repeated interdependence, is still a viable option. But for sure neither of these can withstand serious scrutiny.

It must also be noted that so far the European centrally planned economies have remained at the outskirt of the negotiations. They have been discarding such talks as "problems created by western imperialism need to be solved by west alone." But any such reform of international economic order cannot be achieved without their participation. The contention by socialist economies that it is only a West-South affair is erroneous theoretically as well as practically. For one thing, given the nature of global interdependence, the West-South arrangements cannot sustain isolatedly, it is part of

the international system and as such, it is intersected by East-West or East-South sub-systems.

In drawing up of the world strategies of development and change in the economic order, the trio-power structure cannot be viewed as blocks or monolithic entities in a state of conflicting opposition. The world is too complex and issues too important for such simple minded approach. The CPEs must be the participants of the global negotiations. Practically too, how can substantial changes in the international trade and monetary systems be envisaged without including the Soviet Union and other COMECON countries.

Reforms in international economic order need to begin with the changes both in internal and international economic policies. At the national front policies of income distribution, and of savings and investment on one hand, and that of resources and technology transfer in the international field make the core of the basic changes in the world economic system. For this, the development economics need to devise an adequate theoretical framework of international and national strategy on one hand; and the international community, the policy measures to implement the development strategy at national and international front on the other.

NIEO AND DEVELOPMENT STRATEGY

Economists seem to be in unison that the basic defect in the general approach to development was due to the traditional approaches to the concept of development by synonymizing it with growth.[2] New development approach now is based on the "strategies", the basic fundamentals of which are supposed to be the satisfaction of individual and collective material and non-material needs, i.e. the upgrading of the standards of living of the people including the needs for recreation, leisure and socio-cultural activities; the eradication of mass poverty; self-reliant and participatory development of the society emerging from within the society assuming fuller responsibility for its own development within a framework of given socio-political and economic framework without outside interference; the exercise of public power in distributive justice for the purpose of satisfaction of basic needs, eradication of poverty and

2. For detailed discussion on this point refer back to Chapter Two.

self-reliant development based on endogenous man and material resources; and the need for a balanced economic development.

The approach to development strategies,[3] or development as such must be dealt within the light of the basic fact that the term "strategy" literally refers to "technique of war" or "the art of application of optimal tactics in war." In the domain of theory and policy of economic development, the term is often taken to mean the "existing policy of economic development." Meanwhile, we strongly feel that the concept should be treated in its literal spirit, i.e. technique of war against poverty, hunger, inequitable distribution of incomes and wealth, etc. The concept of strategy must be devised as an "optimal technique" of all round socio-economic development. In fact, the approach to strategy could be made from three—spatial, time and policy—dimensions' point of view. While in spatial dimension the strategy could be global, regional or national, through time it could be long, medium, and short term, and from policy point of view it could be based on the types of measures of economic policy. From the first aspect point of view we could talk of widespread poverty, hunger, mass unemployment, depletion of energy and other natural resources as the global strategical problems, whereas problems of education, urban development, demographic policy may have regional aspect of development; and various economic problems and priorities of development of national economy could form the part of a national strategy. Similarly, from the point of view of time one could fix priorities to the various strategy problems to be tackled during short, long or medium time range. From policy aspect a long list of policy objectives can be made, and it has already been done by the UN.[4]

As far as the general theoretical approach to the problem of development strategy is concerned, broadly speaking it revolves around the "grand" theories. We have already discussed this aspect in Chapters II and III. What we would like to impress upon here is the fact that the developing countries, today, are faced with complex tasks of socio-economic development. The starting basis

3. S. Sharma, Neki aspekti strategije raxvoja zemalja u razvoju i novi medjunarodni ekonomski poredak, Ekonomski institut, Zagreb, 1981.

4. Such an index has been made by the UN under "International Development Strategy" published in the Economic Bulletin for ECAFE, Baugkar, 1978.

of their development is, in substance, condensed in their economic-financial, historical-cultural, political-social, and demographic background. The fundamental questions related to their development refers to the problem of choices of development from global structural point of view. In other words, the core of development of nations lies in their national and international economic policy. As the structure of the developing countries is fairly heterogeneous, it is almost unthinkable to devise a uniform solution to all the development ills of the group. In theoretical research the emphasis has to be on the individual characteristics of the country concerned. In any such research one must begin with the construction of an adequate "theoretical framework" in which particular elements need to be woven in the theoretical approaches that will, broadly speaking, be either capitalistic, socialistic or a combination of the two. We have already referred to some of these problems in the preceding sections of the book.[5]

From "global" or international strategy point of view the discussion on the "problematique" is of considerable interest and deserves detailed consideration, for it is highly relevant from the international economic order point of view. The problem of global strategy has attracted wide academic interest since the UN Resolution on the First Development Decade. However, the interest has risen much in the 1970s. The publication of "The Limits to Growth," a Report to the Club of Rome (1972), marks the beginning of a very intensive debate, and picked up the momentum along with the NIEO. This has, in the first place, resulted in construction of global models of world development strategy by Madows [5], Mesarovic-Pastel [6], Harrera [7], Kaya [8], Linneman [9], Leontief [10], Roberts [11] and Rogers [12]. The optimalization of "Basic Needs", Control Theory or Output-Input Analysis, methods begin with certain basic assumptions such as that the world as a whole is understandable and it is possible to manage with it, that the computer system through precise computer equations, can help people to understand the social system, and that the models can set the course of action. Evidently, the assumptions are dubious and one can hardly expect much from the same. These, however, do show an anxiety and concern for the world well being.[6]

5. For detailed discussion on this point refer to author's book, Teorija i politika privrednog ragvoja u zemljama u razvoju, Zagreb, 1977.
6. An elaborate critical study of the various global models is made by S.

The global aspect of development strategy, in the early years after the war, embraced the theoretical discussions regarding the need for high growth rates in the developing countries. Such theoretical models were propogated by Lewis [12], Nurkse [14], and Fei and Ranies [15] These models emphasized the need of employing "unlimited supplies of labour" in the developing countries, based on the dualistic economy approach such that the primary sector will supply labour and raw material and food to the modern sector, and thus the later need to be intensively developed. However, the actual growth performance in the second half of 1950s and early 1960s, within the developing countries, started showing altogether different results against the envisaged theoretical vision, as the actual development proved to be capital intensive, highly productive branches of the economy absorbed little excess labour with below average incomes, demographic rates being high, an army of new labour force emerged, and attraction of higher and regular monthly incomes led to mass scale migration of rural labour to industrial centres creating urbanization and employment problems.

The problems that the developing world faced towards the end of 1960s and 1970s, refer to the inequitable distribution of incomes and wealth, and mass underemployment and unemployment. This gave rise to the discussions on an alternative strategy of development of the developing countries.[7] This has, by chance, coincided with the outcry of developing nations for a change in "economic order". The economists have started talking of new growth strategy based on "basic human needs", "liquidation of absolute poverty", etc. The UN resolution of 1974 and the ILO's [16] effort on constructing a "global" strategy have invoked further interest all over again. The approach aims at the possibilities of maximum employment opportunities to the people; provision of social services to larger section of the population; ensuring goods and services to the households in order to meet the "basic needs"; participation

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Cole. See his book, Global Models and the International Economic Order, Pergamon Press, Oxford, 1977.

7. For illustration one may cite The Declaration of Cocoyoc, 1974; What Now—Another Development, Dag Hammarskjold Foundation, 1975; Catastrophe or New Society?—Bariloch Foundation, Argentina, 1976; Employment, Growth and Basic Needs—A One World Problem, ILO, Geneva, 1976; Reshaping of the International Order. RIO, 1977.

of the poor sections of the people in making decisions on the manner of satisfaction of their needs; and a solution to the problem of satisfaction of the basic needs at a lower level of income in the shortest possible time.

The "basic needs approach" stems from the current day needs of the developing world. According to Streeten [17] it is the reality, that is based on the concrete character of the problems, their specificities and on disaggregation.[8] The approach takes into account certain goods and services that are required to meet the objectively determined basic human needs like health, education, food, safe drinking water, housing, transport and household minimums. It also embraces a certain degree of self-management, cultural identity, respect for a certain philosophy of life, etc.

A heated debate had been going on for the last couple of years on the arguments for and against the "basic needs" approach. The arguments that favour are based on the facts that such an approach enables to attain priority goals in the shortest possible time at minimum cost of employing national and international resources, thus releasing excess resources for further development; that the approach includes aspects such as health, education, and motivation for the labour force for increased productivity; and that the concept in itself serves as the end objective of the entire development process mobilizing the entire labour force for a qualitative life with an optimalization of available resources. The arguments that run counter to the approach signify the similarity of this approach with the existing social welfare schemes; that the inequality in the distribution of national incomes and wealth being condition sine qua non for the economic growth would imply that the approach would slow the overall economic growth; that such a strategy is similar to the model of "zero-growth", as end emphasis is laid on the redistribution and not on increasing the total wealth; and, finally, that it favours only one class, i.e. the poor, and retains the dependence of the developing countries on the industrialized countries.

Meanwhile, a logical question is posed as to why after three decades so much concern for the poor countries and the poorer section within them? The answer, moreover, lies in the current

8. P. Streeten, From Growth to Basic Needs,, Finance and Development, September, 1979.

trends in the developing countries-social, political and economic. Sadly but true enough, after thirty years, the economists fail to provide satisfactory answer to poverty and its measurement. Further, it is also not known as to what has been the impact of income growth on the internal development of the national economies. What is definite, is the fact that high growth rates of GNP have been recorded in LICs—sometimes even higher than in the developed economies. But what has been the impact of such rates on the level of poverty is known in a very limited sense. However, attempts have been made by Streeten [17], and Ahluwalia and Carter [18] to estimate the poverty line. What is confirmed by these studies is that more than half the population in the developing countries live below the poverty line.

Till recently, belief prevailed among the economists that the increase in per capita GNP will automatically solve the poverty problem and that no specific policy measure is required immediately, as the distributive effects could be realized afterwards. Meanwhile, such theoretical and practical approach has been proved to be wrong. This is why most economists and socio-political thinkers are unanimous now that an effort must be made to do away with absolute mass poverty, disease, illiteracy, squalor, unemployment and inequality. It is contended that a minimum level of "consumption standard" be set by getting rid of earlier theoretical approaches based on prices and market and western standards of incomes. An effort need to be made for higher productivity and equitable distribution, and for adopting consistent employment policy.

Replying to the question "why a new development strategy now?" Haq [1] speaks of the "development crises". He argues that the success of earlier strategy during the last three decades is less than modest. Setting aside for a moment the high GNP growth rates, two-thirds of the world have been able to receive only less than one dollar of real incomes, and this too has been so unevenly distributed that 40% of the poorest have been fighting for the bare survival as they now receive even less than what they did thirty years ago. In his opinion once acclaimed examples of "successful growth" are now becoming models of "successful catastrophe" like Pakistan and Nigeria. This, according to him, is due to the "development weariness" in the developing countries and "aid weariness" in the developed countries. Why the development process has gone astray? He answers by blaming the developing

countries themselves, for having blindly followed the misconceptions set by the developed countries that the real life begins at an income of $ 1000 and over; that they did choose mixed economic systems gaining fruits of neither (capitalist or socialist) of the systems; and their increased dependence on foreign aid had made them inert with mounting debts. All their major decisions have proved to be "catastrophic" for them, as the reality did deceive them.[9]

The problem naturally leads us to the study of international poverty, to which we have already made a brief reference in Chapter VII. It may, however, be stressed here that the "veil of poverty" covers most of the developing world. The poverty barrier is not among nations but within the countries themselves. The war against poverty, thus, is without doubt the greatest challenge to the mankind. The struggle for the future within the countries, basically need restructuring of the economy, redefinition of development goals and strategy, and dependence on self-help. To our mind, only a minor part of the battle can be taken to the international arena.

Irrespective of relatively impressive growth rate records, unfortunately, the distributive effects have been far from being satisfactory, and the national economic policies have taken very little or no notice of the fact so far. It is, therefore, essential that the magnitude of "absolute" and "relative" poverty is assessed within the country and at international level, and the new strategy is analysed at both these levels. As far as the national policy options are concerned, we have mentioned some of them in Chapter VI, and the international measures need to be evolved within the NIEO, as have been drafted in the Programme of Action of the UN.

Although, there is hardly any effort to construct a regional strategy of world development, the fact remains that theoretical concept of global strategy does include world's region as part of international strategy models.[10] The international economic policy as reflected in the activities of Economic Commissions (ECE, ECA, ECAFE, ECLA, etc), Common Markets (ACM, ASEAN) and Development Banks (Asian, African, and Latin American) do support the regional character of the development problems. Even the theoretical studies of Prebisch [19], Nurkse [14] and Myrdal [20] are based on regional

9. For a detailed discussion see his book, The Poverty Curtain—Choices for the Third World, Columbia, Univ. Press, New York, 1976.

10. Practically all models of global strategy divide the world into continents or gographical regions, e.g. Leontief, Mesarovich-Pastel and Kaya.

approach to the problem.[11] Such problems could be in the field of population policy, nutrition, health or education. The development strategy could, thus assume a regional character.

From time dimensional point of view, economics has looked upon the major problems from long, short or medium term. The very approach from "static", "steady" or "dynamic" equilibrium in growth theories, is an aspect of time dimension. It is, therefore, but natural to think of development strategy in terms of time. One strongly feels that all aspects of development neither are equally important at a time nor can be attained simultaneously. A priority criteria need to be applied in formulation of the strategies of development. Some aspects like ecological balance, resources conservation, use of energy, etc. might be included into a well devised pattern of development.

Nevertheless, it must be mentioned that the various dimensions of development strategy should necessarily be considered simultaneously. All points of considerations need to be fitted into the single objective, i.e. search for an optimal teehnique in war against poverty in general, which is part and pracel of the desire of the developing countries for a change in the existing world economic order.

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11. While Prebisch thinks in terms of Latin America, Nurkse and Myrdal base their analyses on experiences in Asia and Far East.

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